Nation's Business®

The Small Business Adviser

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Why Investors Want Variable Annuities

'Entertailing'

Adding entertainment to the shopping experience is helping retailers such as Mark Begelman attract and keep customers.

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Washington, D.C.

PHOTO: ©ROBERT HOLMGREN

The weaving of entertainment *into retailing has proved to be a sales stimulant for many small firms. At Elaine Petrocelli's Corte Madera, Calif., store, Book Passage, "entertailing" is crafted to generate customer loyalty. Cover Story, Page 12.*

PHOTO: ©CHARLES KNEYSE—BLACK STAR

Clarifying *his firm's marketplace position has helped coffee wholesaler Danny O'Neill set prices effectively. Marketing, Page 27.*

VOL. 85, NO. 12

PHOTO: ©JIM CALLAWAY

By exploring *the Internet, Sharon Doherty finds markets for her firm's pet-care products. International Commerce, Page 51.*

DEPARTMENTS

Cover Design: Hans A. Baum
Cover Photo: ©Brian Smith

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Editor's Note

Attracting Fickle Consumers

It's not so hard this time of year to get people into stores. Many of us have holiday gift-giving on our minds, and so shopping becomes a higher priority than it is much of the rest of the year.

For most retailers, it's the rest of the year that presents a quandary. How can they get increasingly busy and fickle customers to come in and buy at those other times?

Some proprietors have discovered a solution: Give customers a reason to visit that goes beyond a possible purchase. The use of amusement or entertainment as that extra benefit is proving to be a draw. Our cover story—"Entertailing"—by Contributing Editor Dale Buss details how large and small stores alike are finding success at those other times of the year. It begins on Page 12.

If you're in retailing, you may get some good ideas from this piece. If you're in another business, you'll probably recognize some of the techniques described, which may be employed by a retailer near you.

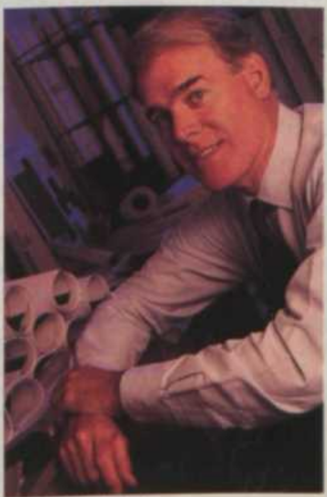

PHOTO: ©PAUL S. HOWELL

Among the many articles this month that provide helpful information for use in particular business situations is a story on negotiating a commercial-property lease. Beginning on Page 48, Susan Hodges offers insight into the leasing process and information on how to get a good lease at a reasonable price.

Business owners who have learned from their leasing experiences include architect Greg Turner, in the photo at left. Chances are you can learn something, too, by reading this article.

Best wishes for the holidays from all of us at *Nation's Business.*

Mary Y. McElveen

Mary Y. McElveen
Editor

Nation'sBusiness

The United States Chamber of Commerce, publisher of Nation's Business, is a federation of businesses, trade associations, local and state chambers, and American chambers of commerce abroad.

Letters

Confessions Of A Nanomanager

I have been getting *Nation's Business* for almost four years, and I wanted to let you know how much I enjoy the magazine. When I started a business two years ago, it became required reading.

Two articles in the November issue were particularly good: "Letting Go Of The Details" and "Take Care To Avoid Liability Traps."

The former could easily have profiled me. For two years I have been driving myself and others crazy with my excessive attention to detail and my failure to delegate responsibilities. I get stressed over the fact that I don't have time to think about strategy and long-term goals, yet I continue to involve myself in the minutiae of day-to-day operations.

The article was a necessary wake-up call. Now I can begin working on a cure before I lose valuable employees.

"Take Care To Avoid Liability Traps" did a fantastic job of covering events that, if ignored, can come back to bite a small-business owner. I often wondered why my company's lawyer insisted that the firm go to such lengths to document everything and obtain shareholder consent agreements on any major decision. Now I know, and never again will I complain about doing these things.

David Jennings, Chief Operating Officer
Internet Connect, Inc.
Salt Lake City

Airline Club Rooms Get A Thumbs Down

Your article "Quiet Havens At The Airport" [September] was misleading.

Every airline club room I have had occasion to visit has been crowded and noisy. Seats and phones were unavailable. And the travelers using the club room acted as though I were intruding on the sanctuary of their private home.

Irvin Gassenheimer Jr.
Montgomery, Ala.

Trying To Get The IRS To Stop The Mailings

I wanted to make a few comments regarding "Lawmakers Propose IRS Restructuring" [Dateline: Washington, October].

I am a small-business owner who has been filing taxes electronically for some time. The problem is that I still receive many tax forms from the Internal Revenue Service through the mail. The paperwork goes directly from the mailbox to the recycling bin.

I have written and phoned the IRS many times asking it to stop these mailings and was told that the agency can't do that. The mailings are a waste of time and of taxpayers' money, and they harm the environment.

Restructuring can't happen too soon.

Jerry L. Haines
President
Haines Sales Corp.
East Syracuse, N.Y.

Taking A Stand For Cleaner Air

In response to "Clean-Air Rules Should Be Delayed" [Editorial, November], once again short-term economic gain is being put ahead of long-term environmental impact.

I, for one, do not want my family to be at greater risk for asthma and lung infections so a few people can squeeze more dollars out of their businesses. Ask anyone with asthma or emphysema which they would rather have: more money or cleaner air.

Kenny Greene
Hollywood, Fla.

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ENTREPRENEUR'S NOTEBOOK

Being A Winner In Global Trade

By Paul Ruine and Cheryl Stuart Ruine

In international business, the foreign country in which you're trading is like the dealer in poker. It decides the house rules and the wild cards. And that means that while every hand remains a gamble, your chances of winning increase with your knowledge of the game.

In Japan, for instance, something as simple as stuffing a business card in your wallet can quickly turn the tables on your venture. Japanese custom requires that business cards, like people, be treated with a level of formality higher than that found in the United States.

Such customs may seem insignificant, but understanding how to adapt your business style and your products to the country where you're hoping to expand can make the difference between winning and folding.

In the five years since our furniture-design and -manufacturing company, Ruine Design Associates, Inc.—and later its spinoff, Ruine Design International, Inc.—began exporting our line of residential and commercial furnishings and accessories, we have learned that the demand for goods and services overseas is surpassed only by the desire of foreign executives to do business on their own terms.

If you plan to join this potentially high-stakes game, here are some things to remember:

You're not in Kansas anymore. Find someone who has lived in the country where you want to do business; he or she can help familiarize you with the culture and consumer tastes. Also look for help from the U.S. Small Business Administration, the U.S. Department of Commerce, local world-trade centers, and trade missions sponsored by various countries and embassy offices in major U.S. cities. These agencies and organizations can help you understand a culture and often can act as liaisons.

Get personal. Once you're familiar with the culture in the country you're trading with or targeting, adapt your products, business style, and procedures accordingly. Pay attention to the norms of communication in that country. Although informal, frankly worded memos and electronic mail are accepted by Americans, for instance, people in other cultures may be offended by such communication. Be respectful and sensitive to such norms, and modify your communication accordingly.

PHOTO: ©TOM SOBOLIK—BLACK STAR

Foreign executives *like to play by their rules, says furniture-company co-owner Paul Ruine.*

Think globally. Don't limit your economic analysis to domestic sales and cycles. By anticipating global economic fluctuations, we have adapted our product line and focused our efforts where they are most likely to succeed. For example, we added home-furnishing accessories when an anticipated downturn in the economy of a country to which we're exporting would leave people inclined to buy candlesticks rather than couches.

Be an impact player. Punch up your marketability by adding specially designed products where they'll have the greatest impact at the least risk. The small size of residences in Japan, for instance, means that consumers there are more apt to buy home accessories than oversized furniture.

Details count. Americans measure in inches and feet, but people in most other countries don't. Printed materials should list metric conversions, and your staff members should be comfortable making presentations using metric measurements.

Similarly, accepted standards on such things as electrical currents, product ingredients, and even preferences in food portions can vary from country to country. Before retooling your products or printing consumer information, double-check standards, terminology, and size preferences, then customize your products and materials.

Using common sense, in international business and in poker, goes a long way in determining who will come up aces. NB

Paul Ruine and Cheryl Stuart Ruine own Ruine Design Associates, Inc., in Brooklyn, N.Y. Cheryl is president and owner of Ruine Design International, Inc. They prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to this column. Write to: Entrepreneur's Notebook, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

WHAT I LEARNED

Knowing—and adapting to—foreign cultures and consumer tastes are the keys to success in international business.

You have what it takes to make your
small business into whatever you want
accomplish more
it to be. We can help you in ways you
never thought of. From accounting
services to lines of credit to corporate
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Dateline: Washington

Business news in brief from the nation's capital.

THE ENVIRONMENT

Senate Action Expected On Endangered-Species Law

The Senate was expected to act by late this year or early in 1998 on a long-awaited measure that would overhaul and streamline the controversial 1973 Endangered Species Act.

The Senate Environment and Public Works Committee had not been expected to clear the legislation until next year, but the panel approved the measure Sept. 30 by a 15-3 vote.

The bill, S. 1180, is a bipartisan compromise brokered by Sen. Dirk Kempthorne, R-Idaho, and is supported by the Clinton administration.

Described by some observers as "boldly moderate," Kempthorne's legislation has drawn fire from the chief protagonists in the endangered-species debate: environmentalists and property-rights advocates. Environmentalists argue that the measure would gut federal protections for threatened species; property-rights advocates contend it wouldn't sufficiently protect the economic interests of the owners of land containing those species.

Kempthorne's bill would provide incentives for landowners to protect plants and animals covered by the Endangered Species Act by allowing the landowners to enter into voluntary habitat-conservation agreements on terms generally favorable to them. In return for signing agreements to protect habitats voluntarily, the landowners would not be subject to future regulations as endangered species are added to the list and would not be penalized for actions that might accidentally harm a protected species or its habitat.

The bill also would require the federal government to speed up the design of species-recovery plans. There are 1,107 species categorized by the U.S. Interior Department as endangered or threatened; 475 approved recovery plans are in place.

In addition, the measure would streamline the interagency consultation process, which often delays bridge, highway, and other construction projects.

Because there is bipartisan support for the Senate bill, environmental groups that are opposed to overhaul of the Endangered Species Act are focusing on the House in their efforts to block the measure.

In the House, environmentalists are backing a bill with fewer landowner protections. It is H.R. 2351, sponsored by Rep. George Miller, D-Calif., the ranking Democrat on the House Resources Committee.

However, Rep. Don Young, R-Alaska, chairman of the panel, has vowed to add stronger property-rights provisions to any measure that moves through his committee.

—Stephen Blakely

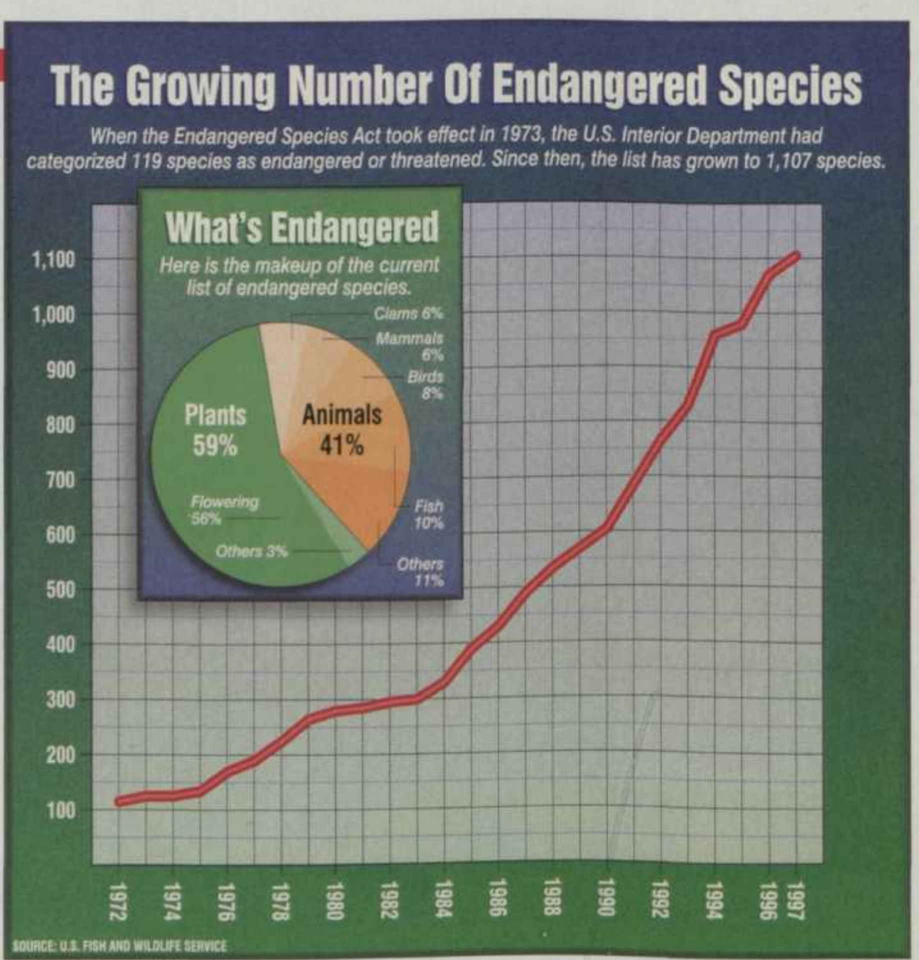

CHART: GEORGIA LEIGH MCDONALD

WORKPLACE INSPECTIONS

Bill Targets Fines By OSHA Inspectors

Bipartisan legislation introduced recently in the House and Senate would preclude the U.S. Occupational Safety and Health Administration from imposing civil fines on U.S. businesses that have been certified by independent inspectors as being in compliance with federal workplace-safety standards.

OSHA still could inspect such businesses, and the agency would be responsible for approving the independent inspectors. The fine exemption would be in force for two years after certification; businesses would pay for their own inspections.

The Senate measure, S. 1237, and the companion House bill, H.R. 2579, attempt to alter the adversarial nature of the relationship between OSHA and employers. "This is a very strong step forward toward making OSHA a better agency and making the workplace safer," said Sen. Judd Gregg, R-N.H., one of the proposal's backers, at a Sept. 30 news conference.

Final action on the measure is unlikely until 1998.

—Steve Bates

1988

1998

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Managing Your Small Business

Getting to know a new location; graduating to campus marketing; spreading the word to sales forces.

By Roberta Maynard

THE WORKPLACE

Easing The Anxieties Of An Office Move

Reducing the stress associated with her firm's relocation was the goal of Betsy Nichol, president of Nichol & Co., Ltd., in New York City, when she dispatched her 12 employees to capture Manhattan on film.

She believed that the employees of her public-relations and marketing firm would feel more connected to their new work environment if they had a hand in decorating it, which is how she planned to use the photos they were asked to shoot.

She gave each worker a roll of black-and-white film, two hours of company time, and the use of a camera for a week.

About 200 photos reflecting the city's architecture and diverse work force were submitted to local photographer John Stefanik, a friend of Nichol's family. He selected 23 photos to be framed and hung in the new offices.

At least one photo from each employee was chosen, and everyone in the office was involved in deciding where the photos would be displayed. The employee whose entry Stefanik judged to be the most interesting and artistic (a shot of a waiter standing in front of an outdoor cafe) received dinner for two at the restaurant of her choice.

"I was impressed with the creativity of the staff, and I was surprised at how seriously everyone took the project," says Nichol, noting that the employees' enthusiasm led them to spend many hours of their own in pursuit of the perfect picture.

"It made everyone appreciate the city where we work. And it was so much fun, I'm thinking of doing something similar next year," Nichol says. "I highly recommend this project as a way to have fun and to get employees involved."

It cost about $2,000 for film, photo processing, and framing of the 16-by-20-inch pictures. But businesses can undertake a similar project on a smaller budget, Nichol says. And even if an owner doesn't have a family friend who is a photographer, a volunteer local newspaper or magazine photographer would do nicely as a judge, she says. ■


PHOTO: ©ARNOLD ADLER

Capturing images *of New York City to decorate their new offices helped employees of the Nichol & Co. marketing firm adjust to their relocation, says Betsy Nichol, president.*

MARKETING

Tactics For Attracting The College Crowd

College students make up a potentially lucrative market, particularly for small businesses near college campuses. According to Roper Starch Worldwide Inc., a market-research firm based in New York City, the college market has an estimated value of $96 billion a year.

Ian Leopold, president of Campus Concepts Inc., a Baltimore advertising firm that targets the 18-to-24 age group, offers these easy and relatively inexpensive suggestions for small firms seeking student customers:

■ Tap into the campus lifestyle. Read the school newspaper, walk around the campus, and stay up-to-date on events at the university. Popular images and allusions in your advertising and store decor will draw students' attention.

■ Sponsor college teams and clubs. Intramural sports are among the most popular extracurricular college activities. Leopold suggests putting your logo on team uniforms, distributing free samples of your product at games, and sponsoring tournaments.

■ Gain exposure on the Internet. A restaurant, for example, could create its own World Wide Web site advertising its menu, specials, hours, and address. Enabling customers to order via the Internet is a plus.

■ Evaluate your discount-coupon strategy. Coupons can work, but students will use them only if they are "real deals," Leopold says.

■ Look into doing business directly with the college. For example, in Medford, Mass., four local, independent takeout restaurants signed an agreement last spring with Tufts University that allows students to charge their delivered meals to their college financial account, according to Patti Lee of Tufts Dining Services.

■ Set up a table in the campus center or student union to market your products and services or simply gauge student interests.

■ Hire a student representative to post signs, invite people to events you're sponsoring, or hand out fliers. Such workers are relatively inexpensive and can boost sales by putting a youthful face on your business.

—Joshua Robin

Joshua Robin is a senior at Tufts University.

SALES STRATEGIES

Smart Moves To Educate An Outside Sales Force

When a company depends on retailers for a large portion of its revenues, it's critical that the retailers' sales forces understand the product and present it properly to customers. But educating an outside sales force is easier said than done for a fledgling company with limited resources—a firm such as Elixir Tonics & Teas.

Elixir is a two-year-old Los Angeles firm that makes herbal products, and about 40 percent of its $800,000 in sales this year will be to Nordstrom and The Nature Company. The remainder will come from mail-order and private-label sales and from sales made at Elixir's retail store.

PHOTO: ©BART BARTHOLOMEW

Herbal-tea makers *Edgar Veytia, left, and Jeffrey A. Stein emphasize product-line education for outside sales forces as a way to build revenue for their Los Angeles firm, Elixir Tonics & Teas.*

Educating outside salespeople is particularly important to Elixir because of its type of product, says Edgar Veytia, co-owner of the company with Jeffrey A. Stein. "We have to overcome misconceptions about herbal products," he says, "misconceptions that there is no scientific data, that there is only folklore about such remedies."

For a start, Elixir sends its staff herbalists to train as many as 12 salespeople from each of the 15 Nordstrom stores selling the company's products. A video provides refresher training, supplementing the black-and-white training materials that Elixir produces in-house. Salespeople are encouraged to call the herbalists directly if they have questions about the products.

To gauge the effectiveness of the training, Elixir's staff monitors retailers' sales closely and gathers information from sales associates so it can make changes in the training as products are rolled out.

The owners' approach with retailers is to keep the information and the presentation simple. For example, to focus on best sellers and avoid product overlap, Elixir has pared its offerings at Nordstrom to 31 herbal products from 140 and to 10 teas from 24.

"We've spent hours and hours trying to cut away information, trying to eliminate ambiguity, to get just the right amount of information for them to make basic decisions," says Veytia. "Our system works like a Web site. It begins with clear, succinct sales information, with links to take you deeper if you want more information about herbal remedies." Soon, Elixir's point-of-sale materials will be supplemented by an information-by-fax system for customers.

Veytia has further advice for companies facing a similar challenge: "In thinking out and designing training for an outside sales force, you really have to start at the end user's perspective. Find out what that person needs or wants to know, then work backward."

Having a retail store, he adds, has been a tremendous tool, both as a way to get customer feedback and as a place to hone staff presentations. ■

DUE DILIGENCE

Checking Out Potential Partners

Conducting an in-depth check of potential partners has become more routine for companies entering into major business relationships such as mergers, acquisitions, partnerships, and licensing agreements, according to Research Associates, Inc., a corporate-investigation firm in Cleveland.

Information that due diligence can uncover, according to the company, includes possible ties to organized crime, misrepresented financial records, nonexistent operations and locations, previous criminal activity, tax liens, ongoing lawsuits, and bankruptcy.

Research Associates says that when contemplating a deal, companies should be alert to certain signs. Although none of the following circumstances on its own is necessarily an indication of bad faith or unscrupulous behavior, the presence of two or more of the characteristics could be grounds for heightened curiosity.

Among the signs cited by Research Associates:

- The information seems too good to be true. (It probably is.)
- The prospect uses an agent instead of appearing in person.
- The information you request is never provided in full.
- A foreign location is involved.
- The company asks you to provide earnest money.
- The company demands secrecy.
- The company offers vague personal information.
- There is a rush to get the deal started.
- The company is less than two years old. ■

NB TIPS

Dueling Menus

Food-service operators will have a chance to see how their menus stack up against others. In the National Restaurant Association's annual Great Menu Contest, menus in eight categories will be judged on design, imagination, and merchandising power. Menus must be submitted by Jan. 30. For information, call 1-800-424-5156.

Handing Over The Keys

When getting ready to sell a small business, an owner should allow two to three years' lead time, according to Alan J. Sharfstein, president of DAK Corporate Investors, Inc., an investment-banking firm in Rochelle Park, N.J.

Owners should use that time to spruce up the business, organize records, eliminate lagging products or divisions, and ensure that other aspects of the business are in order. Be prepared to sell earlier than planned if the right offer comes along, Sharfstein advises, and also be ready to wait out an economic downturn if one occurs.

Why Walk The Show Floor?

When you arrive at a trade show, take a moment to remember why you registered, advises Hedy Ratner, co-director of the Women's Business Development Center, a not-for-profit organization in Chicago. Do you want fresh information sources or new suppliers? Is your purpose to cement business relationships or to study the competition? Focusing on your goals will help you make the most of the event, she says. NB

Roberta Maynard is a business writer in Washington, D.C.

COVER STORY

'Entertailing'

By Dale D. Buss

Three years ago, avocational rock 'n' roller Mark Begelman was awed by the exceedingly true tones of an amplifier at a ZZ Top concert. But when he went into an Ace Music Store near his south Florida home to experiment with the same brand of amp, the salesman told him he couldn't raise the volume because it would disturb other customers. He could buy the amp, take it home, and try it; if he didn't like it, he could return it for credit.

Begelman, lead guitarist in a classic-rock band, left frustrated and fuming. "It was one of the great joys of my life to be making music," he says, "and I ended up walking out of a music store feeling bad."

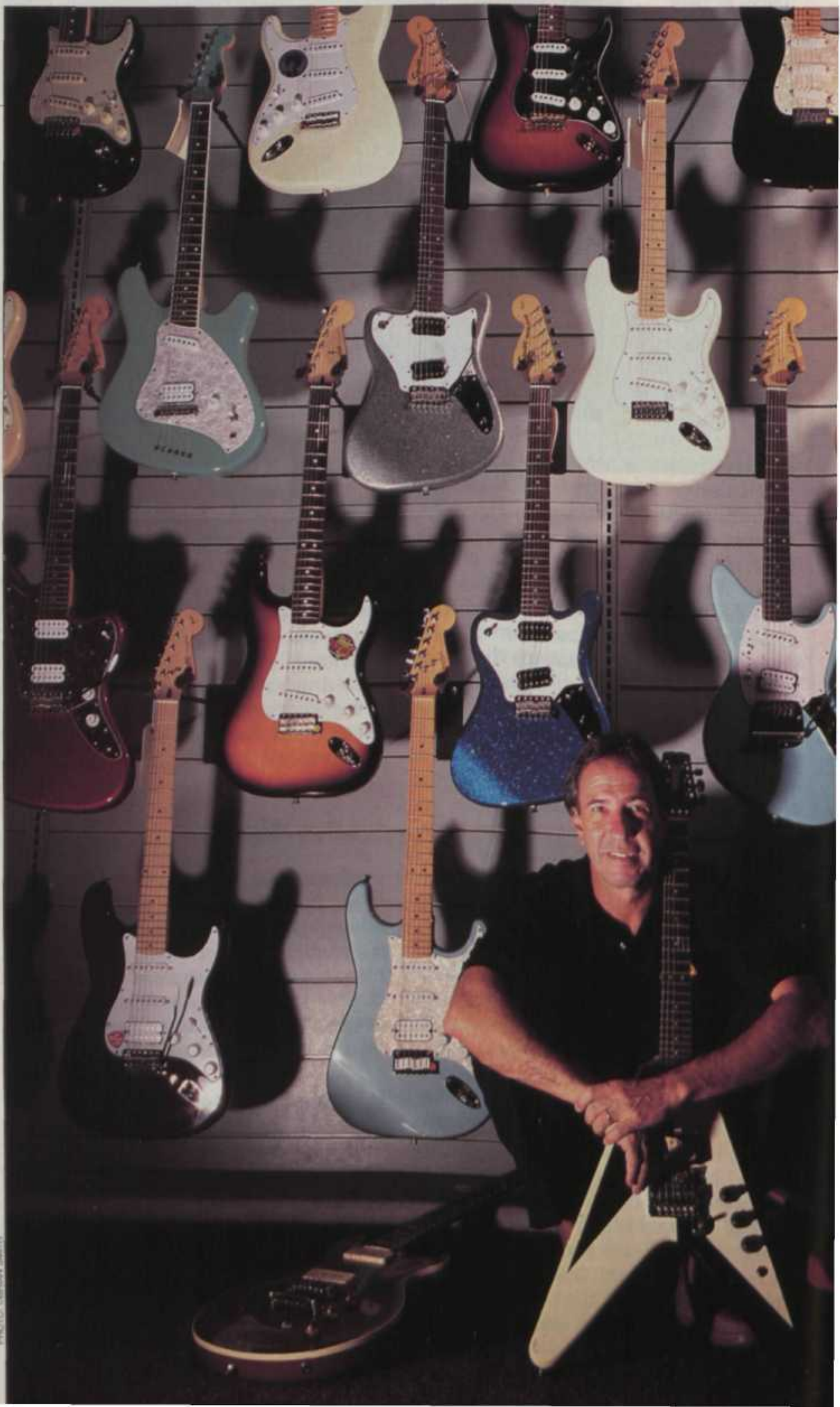
Last year he did something about it. Several months after leaving Office Depot Inc.—he had been president of the giant office-supply superstore chain—Begelman used his financial and other resources to buy the North Miami-based Ace Music group, which gave him access to music-equipment vendors. Then, in March, he took the next step toward his dream of running a music store his way: He closed an Ace store in Tampa and, at a nearby location, opened the Music and Recording Superstore—MARS.

The 34,000-square-foot musicians' wonderland sports a recording studio where customers can jam on the equipment, a stage where any patron can perform for five minutes, and a dozen video screens broadcasting musical entertainment.

The store also features concerts, seminars, and themed sessions, such as the weekly Drums for Lunch, a demonstration and dialogue about percussion that regularly draws about 100 people.

In short, by surrounding customers with interactive, stimulating, even raucous possibilities for entertaining themselves—and being entertained—and by providing a variety of merchandise and a helpful staff, MARS charms customers into staying, buying, and returning repeatedly.

PHOTO: OBRIAN SMITH



Combine entertainment with traditional retailing and what do you have? If handled right, a winning formula—as some retailers, both large and small, are finding.

Gigantic playgrounds *for musicians, Mark Begelman's music stores strike the right chord with customers looking for an entertaining shopping experience.*

Call it "shoppertainment" or "experiential retailing," as some already have, or "entertailing," to coin a term. The weaving of entertainment into modern retailing is reshaping the shopping experience and the businesses dependent on it. The concept is working handsomely for many retailers, Begelman included. And their success is undermining many rivals who scoff at the idea.

"If you're in retail and you're not thinking about entertainment, you're cooked," says Howard Davidowitz, chairman of Davidowitz & Associates, a New York City consulting firm that specializes in national retailing.

But don't think your approach has to mirror what everyone else is doing. Says Davidowitz: "You've got to look at this trend and then provide your own interpretation of it for your store—what will fit with your customer, your level of service, your money, your everything. It's about adaptation."

Practically no category of retailing is immune from the furious advance of shopper entertainment. As Begelman says, it can help "raise the bar"—enhance the richness—of the in-store experience.

Such an approach might be genuinely educational, mainly relational, or merely diversionary; it might feature video and sound, interactivity with a computer, a chance to burn off some physical energy in the store, or just a slice of apple pie.

"We want you to leave all your troubles behind and get lost in our world, so you're entertained and delighted; we want to put people in an environment where they can not only dream the dream but act on it," says the 50-year-old Begelman, whose band—formerly Eraserheads—is now called The Men From MARS. "I want people to feel great when they walk out of the store. *I* want to feel great when I walk out of my store!"

Entertailing often involves some simple twist on customer service, merchandising, pricing, or other basic disciplines of retailing—such as giving a store a playful design or turning a big sale into an event. The primary goal is to engage customers so they'll stay longer and buy more. (See "Getting It Done," on Page 18.)

To be sure, entertailing has its limits—and its skeptics. Equipping a store with entertainment-related accouterments can be risky and expensive because consumers can be fickle.

What's more, the concept can't make up for poor execution of basic, proven retailing practices. Bruce Van Kleeck, vice president of member services for the National Retail Federation, a trade group in Washington, D.C., says consumers go to a store "most importantly because of loyalty to the establishment, and they want the building to be well-maintained and the staff to be courteous."

Adds Stanley Eichelbaum, president of Marketing Developments Inc., a national retailing consulting firm in Cincinnati: "Shoppertainment doesn't mean that the customers are going to be so ingratiated that they'll do whatever you want."

Nonetheless, clear indications are emerging that consumers are responding to entertailing. Eichelbaum's analysis, for example, shows that "well-conceived shoppertainment is creating [sales] performance well above 40 percent more than the typical specialty retailer."

The explosive growth of some start-up chains illustrates the power of the concept. So do the results achieved by single-store proprietors such as Regina Thibideau. Sales at her women's clothing store in Sun City West, Ariz., have jumped 25 percent this year since she embraced some aspects of shoppertainment, including special in-store events.

"Retailing is so much more competitive than in years past, and in order to be successful now, you have to be more to a customer than you were in the '80s," says Thibideau, whose 17-year-old business, Maggie O'Shaughnessy's, is named

for her late mother-in-law. "You can't expect people to come in just because they need a pair of socks."

One study hints at why Americans are responding positively to entertailing: 34 percent of shoppers are driven more by emotional factors such as fun and excitement than by "logical" factors such as price, quality, and convenience, according to a 1996 survey conducted for Metromail Corp., a direct-mail company based in New York City. The researchers attribute those influences to the media environment that has enveloped most baby boomers and their offspring since their formative years.

"We don't sell anything that anybody needs" regularly. "So why do people shop here? They're entertained."

—Ax-Man Owner David Gray

Independent retailers, especially, need new lures. These days, running a store can be riskier than investing in the stock market. Over the past decade, American merchants have been buffeted continually—and markets have been reshaped—by powerful new forces. These include the spread of mass discounters, the rise of specialty superstores, the proliferation of suburban "power" retailing centers (superstores and other retailers clustered along suburban thoroughfares), the surging popularity of mail order, and, most recently, the arrival of the Internet as an alternative retailing platform offering consumers unparalleled convenience.

Meanwhile, chains continue to open stores, with the result that there are enough outlets to support the shopping needs of nearly twice the U.S. population, according to Marketing Developments.

What's more, even with all these new venues, "consumers are bored; they're a lot less excited about shopping than they used to be," says retail consultant Davidowitz.

In this environment, it's no longer enough for a retailer to operate conventionally. Even enticements such as broad merchandise selection, everyday low pricing, extended store hours, and liberal merchandise-return policies are often insufficient to attract today's consumers. Many shoppers take such conveniences for granted, considering them part of the retailers' ante for the privilege of serving them.

"You can do a lot of other things right, but it doesn't matter if you can't get them in the door in the first place," says Bob Nelson, president of Power Retailing Inc., a Phoenix-based consulting firm for small-store owners.

Adds Eichelbaum: "The challenge for these folks is to enhance the reason for choosing your destination over others by some level of positive differentiation, something meaningful that truly affects decisions. [Entertailing] is probably the best-proven device for facilitating that challenge."

Among small, young, independent chains and single stores, two distinct categories of entertailing-oriented retailers are emerging. One is the hyperaccelerating, relatively young company. The other is the enlightened small-store owner who may not have a lot of capital but does have the imagination and moxie to put shoppertainment concepts to work in a low-profile, traditional retail format.

An example of the first type is MARS.

Tampa consumers' reaction to owner

PHOTO: ©STEVE WOIT

At Golf Galaxy *in Bloomington, Minn., co-founders Randy Zanatta, left, and Greg Maanum demonstrate the store's practice putting green for customer Larry Christenson, center. Retailers should strive for "theatrical and fun experiences," says Zanatta.*

Begelman's first store was so positive that he quickly opened MARS outlets in Dallas, Atlanta, and Fort Lauderdale, Fla. He plans to have 10 MARS stores operating in major cities throughout the South and Southeast by the end of this year.

Kevin Browett, owner of MedMax superstores, based in Southfield, Mich., has rapidly expanded his chain, which sells health-assistance products. He opened four outlets in Michigan in the company's first year, 1996, and now has five there and three in the Philadelphia area. Each store features a 100-square-foot "test track" where customers can try out wheelchairs, electric scooters, and other mobility-assistance devices on various surfaces, including wood, stone, concrete, and plush carpet. Each store also has a ramp and a set of steps for testing purposes.

PHOTO: ©ROBERT HOLMGREN

A menu of activities *such as discussion groups and classes draws loyal customers to Book Passage in Corte Madera, Calif., says co-owner Elaine Petrocelli.*

"People can really experience the product," says Tony Camilletti, vice president of Jon Greenberg & Associates, the Southfield retail-store-design firm that created the MedMax format. "It's very pleasing, and it's positioning the retailer to go that extra step that the customer may not have expected."

Such gambits can be as basic as they are powerful. At David Gray's Ax-Man surplus-goods stores in Minneapolis and St. Paul, shoppers are encouraged to handle the merchandise. Gray decided not to have the goods shrink-wrapped.

Gray also creates signs and newspaper ads that are both amusing and practical, suggesting to customers creative uses for his merchandise—originally made for other purposes. "Bowling-alley scoring tables—they make the ultimate dorm-room study desk," one Ax-Man ad said recently. "Covers for jumbo barbecue grills—cover your riding lawn mower and your furniture."

Gray also encourages local schools to bring in busloads of kids, "who raise hell

A Bigger Bite Of Entertainment

In some ways, "eater-tainment" is as old as the first nightclub. Dinner theater has been around for decades, and so has Chuck E. Cheese, the pizza restaurant and entertainment center for kids. Cracker Barrel restaurants have included gift shops for several years, and sports bars have touted multiple huge-screen TVs. Even cybercafes aren't revolutionary anymore.

But now, entertainment and dining are commingling in new ways and across a wider spectrum of possibilities than before, producing what some observers believe is a new attitude among consumers.

"Now, there has developed the expectation that the entertainment element will always be there," says Ron Paul, president of Technomic Inc., a Chicago-based restaurant-consulting firm. "Sitting and eating a quiet meal just doesn't do it anymore," he says. "We're not talking about a fad here. We're talking about a lifestyle change."

High-profile, flashy manifestations such as Hard Rock Cafe and Planet Hollywood have been driving the trend at one level, blending food, music, and souvenir shops into "destination" establishments around the globe. "These places have become kind of like a cultural pilgrimage," says Bill Chidley, chief creative officer of Design Forum, a Dayton, Ohio, firm.

Independent restaurateurs are trying to keep pace. Now mentioned by many in the same breath with other top-tier eatertainment venues, for example, is Rainforest Cafe, a Minneapolis-based start-up that has opened several tropically themed outlets in large metropolitan areas, promising "a wild place to shop and eat."

EatZi's in Dallas is an 8,000-square-foot culinary free-for-all that combines a takeout menu of 400 items with hustle-bustle, open-view kitchens, opera music in the background, and traffic-flow patterns that encourage patrons to mingle.

"People come in to get their battery charged up after work with people banging on them all day long," says Phil Romano, a restaurant-industry veteran and co-owner of EatZi's with Brinker International, parent of the Chili's chain. "They see the movement, and they want to become part of it."

Dave & Buster's opened its first outlet in Dallas in 1982 and has grown to a dozen 60,000-square-foot complexes that offer not only food and drink but also billiards, shuffleboard, bowling, golf and car-racing simulators, theme-park rides, arcade games, and a casino.

"These shopping and eating excursions become three-hour vacations on the weekends," says Gregory Rothweiler, a senior executive at Shea Architects, a retail-design firm based in Minneapolis. "And they work across generations, which is why these places have such strong positioning."

with the condition of the store, but they have a great time touching and feeling" the merchandise, ranging from industrial blowers to sheets of Mylar to coffeepots.

"The key is that we don't sell anything that anybody needs or uses on a regular monthly basis," Gray says. "So why do people shop here? They're entertained."

Independent retailer Jim Crespos began his mercantile career by servicing a market niche that is about as mundane as they come: people who have to do their laundry.

Several years ago, in Richmond, Va., he opened the Lost Sock as a traditional coin-operated laundry. Then he added a bar, a deli, dartboards, and table tennis so patrons would have things to do while waiting for their clothes to dry. Recently, Crespos added computers, making the Lost Sock an amalgam of unrelated activities that add up to an entertailing bonanza.

PHOTOS: ©STEVE WOIT

At his surplus-goods stores *in Minnesota's Twin Cities, owner David Gray encourages shoppers to handle the merchandise.*

"It's like a small shopping mall now," he says. "But it's also a place where we have a lot of regular customers who know everyone else—sort of like a small 'Cheers.' As people hear about us, we're getting calls from all over" from others interested in duplicating his success with the Lost Sock.

Small retailers, fast-growth startups, and veteran visionaries of entertailing offer these ideas for executing an entertailing strategy successfully—and for avoiding the many pitfalls:

Think technology first.

Digital technology is driving many of the best approaches to entertailing, such as those that involve a personal computer and some sort of interaction with the customer.

For example, West Coast Entertainment Corp., a video-rental chain based in Langhorne, Pa., is rolling out "movie-finding" interactive computer kiosks nicknamed "Clair V" (as in "clairvoyant"). The program poses about a dozen questions to the participant about movie preferences, then produces a list of recommendations.

Clair V is meant to draw consumers into the store at times when they planned only to return a rented tape; those visits account for about half of customer traffic. "We want to make our stores entertaining in and of themselves," says Steve Apple, vice president of corporate development for West Coast, which took shape as a collection of nearly 200 independent video retailers around the country.

Inventive technology suppliers are helping to fuel retailers' adoption of entertailing. For example, Muffin-Head Productions Inc., a multimedia company in New York City, has tested an information kiosk that it calls The Beauty Shoppe at a few small drugstore chains around the country. It's planning to roll out thousands of the kiosks at major chains next year.

The avowed purpose of the kiosks is to give complete and accurate information on cosmetics and grooming, but the structures include advertising paid for by makeup manufacturers.

The Beauty Shoppe, which uses an interactive, touch-screen presentation, is so engaging that it keeps consumers at the cosmetics counter for three to four minutes compared with an industry average of 45 seconds, says Haim Ariav, a former fashion photographer who founded Muffin-Head and conceived The Beauty Shoppe.

"The graphics and videos are top-quality and attract shoppers," says Bob VonderHaar, vice president of merchandising for Ulta3, a Chicago-based, 60-store chain of beauty salons that tested Ariav's creation. "We have customers who prefer watching videos to talking with someone for information."

Originet Inc. is a Kirkland, Wash., start-up that creates electronic content "packages" for retailers. The packages combine music, informational and instructional videos, and other programs that can be wired into a store environment. The company customizes content for large chains; for independents, it has off-the-shelf products "with content that fits various market segments," says Bill Becker, co-founder, president, and CEO of Originet.

Again, while informing consumers is the main purpose, Originet's approach is as much about entertaining them.

Human interaction can substitute for hardware.

Merchants don't have to be software engineers to be effective entertailers. "It can be just a participatory, meaningful, fun el-

ement that separates you from the rest," says consultant Eichelbaum.

At the Store of Knowledge, a small chain of educational-toy stores in metropolitan Detroit, "it" is as simple as posting an employee to demonstrate unusual toys in the foyer-like area just inside the door.

At women's clothing store O'Shaughnessy's, entertailing means serving free apple pie and coffee daily during July and cookies and lemonade during August.

Stew Leonard's Dairy, a trailblazing shoppertainment food retailer in Norwalk, Conn., sports animated farm animals whose mechanized actions are Disney-quality. But the firm's two stores, both in Connecticut, also rely on all sorts of high-impact, low-tech exercises. A comic bard might sing "Happy Birthday" to customers, for instance. A butter churn might be put on display, with its output hand-packed in front of customers. Deli staffers might ask children if they want to bite nose and eye holes into bologna slices so they can wear a cold-cut "mask."

> **"There's something about shopping that makes people want to have fun doing it."**
>
> —Randy Zanatta, Golf Galaxy

"We've got every single kid in the store running to get a piece of bologna now," says Stew Leonard Jr., head of the company, which produced more than $100 million in revenues last year from its two stores. "We call that a 'wow,' as in what I like to hear customers saying when they're going through our store: 'Wow, that was fun!'"

Consumers want a reason to hang out.

At Book Passage in Corte Madera, Calif., entertailing is about cultivating loyal customers, not just providing a diversionary moment for passers-by. To that end, Book Passage goes way beyond the coffee bars and "reading areas" that are formulaic to many of the book superstores across the country.

Indeed, owners Elaine and Bill Petrocelli represent a maverick tack that some enterprising independents have been taking for several years while less-inventive peers closed their doors under the onslaught from big chain stores.

A kaleidoscopic calendar of activities—averaging more than one a day—is the key. Book Passage has book-discussion groups meeting at practically any hour as well as a menu of continuing, for-fee classes in topics such as first-person writing, mystery writing, and Italian. A monthly 24-page newsletter reaches 40,000 recipients.

"We know that's what draws people in," says Elaine Petrocelli. "I've even had customers tell me that Book Passage is the reason they live in Marin County."

Create special events.

A stream of nonrepeating special events is one of the most effective ways that retailers can build an entertainment quotient into their stores, and independents can excel at it.

For example, after O'Shaughnessy's owner Thibideau had success this year offering light desserts to her patrons, most of whom are retired, several of them asked that the store host a barbecue—which Thibideau plans to do soon.

West Coast Entertainment relies on children's performers, face-painters, and other entertainers to anchor in-store festivals.

For Halloween, Stew Leonard's super-

'Get Customers To Smile'

Just for Feet knows how to walk all over the competition. The athletic-shoe retailer, based in Birmingham, Ala., has exploded to a projected $500 million in sales this year from just $23 million when it went public in 1993. It has 70 stores around the country—it had just 45 a year ago and one in 1988. Ten thousand people work at Just for Feet.

But each store is nearly the same as the single suburban-Birmingham outlet that launched the chain. Just For Feet is a fun-for-all-ages, hypermetabolic playpen that features an indoor basketball court, an entire wall of video screens, laser light shows, a hot-dog restaurant, all-night sales, a nursery, a drive-through window, appearances by celebrity athletes, and an area just inside the door called the Combat Zone, where Just for Feet makes a show of matching competitors' prices. The store's concept has become a model for the retailing industry.

"The best fit I've seen between entertainment and retailing is Just for Feet," says Howard Davidowitz, a consultant on national retailing. "The store is fun from beginning to end. They sell basic merchandise; [they] married it to entertainment and ended up as the hottest retailer in the country."

Just for Feet's achievements reflect the think-big approach of Harold Ruttenberg, founder and CEO. The 55-year-old Ruttenberg, who previously was the proprietor of a single surf-wear store, forecasts $1 billion in sales by 2000 and isn't shy about asserting that he was "the first retailer ... to ever bring entertainment into retailing."

In 1977, Ruttenberg—whose accent blends his South African roots and his Southern U.S. home—owned a 2,500-square-foot sportswear store in a Birmingham mall. Ten years later, after being inspired by the glitz of a huge sporting-goods trade show, Ruttenberg decided to apply the same big-show approach to retailing. He opened his first Just for Feet on land he owned nearby.

PHOTO: ©TOM SOBOLIK—BLACK STAR

Activities abound *throughout Harold Ruttenberg's Just for Feet athletic-shoe stores.*

"The most difficult thing to do is to get the customer to smile while they're paying you money," he says. "That's what we've been able to do."

In addition to including a basketball court so customers could try out his shoes, Ruttenberg's formula has relied from the beginning on other elements, including wide selection, deep inventory, and use of the store-within-a-store concept for major vendors.

Ruttenberg also believes in customer service, with employees who know their sports shoes. "The good thing about our concept is that it's not just entertainment," he says. "If it was, people would only come and look."

markets construct haunted houses staffed by dozens of employees; the spooky entertainment draws about 25,000 people a season.

Book Passage holds four big gatherings each year. There are separate confabs on poetry, mysteries, writing for children, and travel writing. In addition, there are one-time sessions with well-known authors who regularly stop by Book Passage.

And whether it's Jimmy Carter or Anita Hill, the authors don't just sit at tables and sign autographs. "We require them to talk about their books, give classes about the subjects of their books, and share the excitement of their ideas with our customers," says Elaine Petrocelli. "It's important to me that my customers have the chance to interact with the people who write the books, because books and ideas are really what we're about."

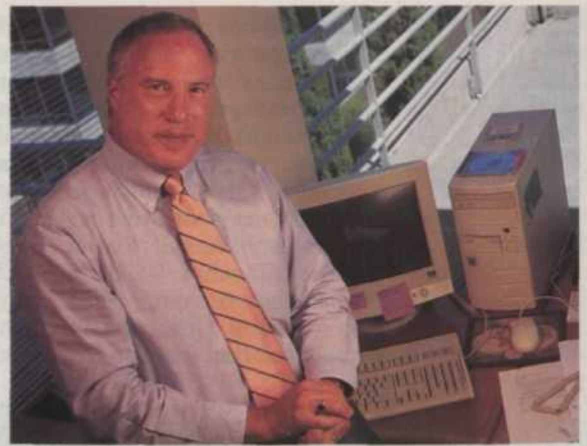


PHOTO: ©PAUL SOUDERS

Electronic content "packages" *combining music, videos, and other programs are created for retailers by Bill Becker's Originet Inc. in Kirkland, Wash.*

Capital is a great ally.

Many of the most elaborate entertailing applications require lots of money, and it isn't always because of the cost of technology. At Golf Galaxy, a 16,000-square-foot golf-equipment store in Bloomington, Minn., near Minneapolis, shoppertainment is as much sizzle as silicon. The store was founded last year by two former executives of Best Buy, a chain of multimedia superstores.

In addition to stocking $1.2 million in inventory, the store features a 400-square-foot practice putting green that lies across a graceful, arching bridge modeled on one at Augusta National, the Georgia course that hosts the Masters Tournament.

Golf Galaxy also has a full-size sand bunker for chipping practice, a chamber where customers can play a simulated round, and even a spot where it operates a travel agency geared to golfing vacations.

"The more theatrical and fun experiences a retailer can add nowadays, the more successful you're going to be," says co-founder Randy Zanatta. Encouraged by results so far (Golf Galaxy is already the highest-grossing golf store in the Twin Cities), Zanatta and his partner, Greg Maanum, are planning two more outlets in the area.

Don't lose sight of the main mission: selling.

A well-executed entertailing concept, however, won't make up for fundamental mistakes in merchandise selection and pricing—or customer service, says Bill Chidley, chief creative officer at Design Forum, a Dayton, Ohio, company whose clients include retailers.

"Everybody wants to be unique and distinctive," Chidley says. "But you want to make sure you solve a larger problem, and entertainment only does that temporarily. Without a price or service advantage, too, why else should a customer come back to you?"

The attractions should be purposeful beyond recreation and "meant to close a sale, not just to entertain," Chidley says. At Golf Galaxy, which Chidley's firm designed, the putting green isn't a separate area for fine-tuning a putting game; it's also a place where putters are displayed.

"You can get in and out [of the store] very quickly if you want to," says Golf Galaxy's Zanatta. "It is sort of a paradox—maybe we should just have a stripped-out warehouse store with a drive-through. But there's something about shopping that makes people want to have fun doing it, too."

Stew Leonard Jr. agrees: "People are saying that retailing is dead, that everyone is going to order everything off the Internet. I feel just the opposite: People still want to go out. But they want to go out and have fun. And to help them do that, and get them back, you've got to create an environment where they walk out smiling." NB

To order a reprint of this story, see Page 55. For a fax copy, see Page 29.

Getting It Done

If entertailing sounds like it requires big bucks and merchandising genius—and you're not sure you have either—don't despair. Even self-proclaimed mom-and-pop stores can create appealing environments by using elements of the phenomenon such as these:

Create Happenings

Consumers like to sense that something's going on at your store besides the lights. Hold regular special events that go beyond sales. If you're a men's clothier, for example, you might hold personal-finance seminars. If you have a children's bookstore, consider group discussions on parenting. If you own a gift shop, invite the artists who create lines of statuettes or crystals to meet with customers; they regularly tour stores.

Rethink Your Store's Design

Superstores aren't the only retailers that can use physical elements to entertain consumers. Fore Her, a women's golf-apparel store in Phoenix, is designed like a golf course, with a putting green in the middle of the store and green "fairways" weaving around the displays.

Start A Club

It's a way for consumers to associate your store with something besides merchandise. And if you can get them to sign up, you can use the information to build a database for direct mailings.

Be Community-Minded

Consider ways to help the community while attracting customers. Maggie O'Shaughnessy's, a women's clothier in Sun City West, Ariz., entertained customers and touched hearts in the fall by combining a customer-oriented event with a public service. The event focused on teaching customers various ways to tie scarves to enhance the appearance of a suit or blouse. The public-service aspect addressed the special concerns of cancer patients by showing them how to obscure hair loss from chemotherapy.

Interact With Shoppers

There's nothing like personal interaction, especially between customers and a store's owner. Consider asking customers how you might improve the store. Your being on the premises provides customers with an extra element of serendipity when they come in; it shows you care, and it gives you a ground-floor view of what's working and what's not.

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Small Business Financial Adviser

Annuities soar in popularity; what to do with obsolete inventory; shopping for Treasury bonds.

This is the second part of a two-part series on annuities. Last month's issue examined what annuities are and how they work.

Are Variable Annuities For You?

By Stephen Blakely

Variable annuities have a justified reputation for being complex investments for retirement. But they're also popular: Sales of variable annuities have jumped more than 58 percent in the past three years, reaching almost $74 billion last year.

Annuities are designed to provide a hedge against outliving your retirement savings. When you buy an annuity, the insurance company invests your money and agrees to pay you back according to the contract terms.

While individuals are the major customers for variable annuities, businesses also have a strong interest in the product, since many use annuities in company-sponsored retirement plans.

Many financial experts say variable annuities are too expensive and are ill-suited for use in employee retirement plans, yet many business owners find them to be convenient and popular with employees. That puzzles some experts who see mutual funds as a more cost-effective alternative, says Glenn Daily, a New York City insurance consultant. "I do wonder if employers know what they're doing in some cases."

Insurance companies that sell variable annuities say employers know exactly what they're doing. Both owners and workers want the guarantees that come with annuities but aren't available with mutual funds, which are the more common investment vehicles in 401(k) plans.

"There are benefits to the annuity that they can't get with a mutual fund," says Donna Dickson, an advanced-sales consultant for Massachusetts Mutual Life Insurance Co. (known as MassMutual—the Blue Chip Company), in Springfield, Mass. She cites the safety that annuities offer because contributions are insured and some rates of return are guaranteed by the insurance company. Those features are popular with employees, she says, because "people don't like to take a lot of risk with all of their retirement money."

PHOTO: ©JOHN BORGE

The group annuity *set up by FRS Industries in Fargo, N.D., has drawn the participation of all eligible employees, indicating the plan's popularity, says Tim Dockter, treasurer and co-owner.*

Advocates like annuities, both fixed and variable, because, as insurance products, they provide a death benefit—in effect, a guarantee that your beneficiaries will receive a tax-free refund of your contributions. Annuities also provide tax-deferred investment earnings and can be structured to give you a steady stream of income from your savings once you retire, with the option of a guaranteed income for life.

Variable annuities, which currently are more profitable for investors and more popular than fixed annuities, offer investment options ranging from a conservative, guaranteed-interest account to a wide range of stock and bond mutual funds.

"Variable annuities have both insurance features and investment features, and there are costs related to each," says Mark Mackey, president of the National Association for Variable Annuities (NAVA), the industry's trade group, based in Reston, Va. "When considering expenses, one must weigh them against all of the benefits and options that those expenses cover."

The Cost Factor

Critics point out that variable annuities involve various insurance costs and other fees that can make them significantly more expensive than a comparable investment in a mutual fund, whether inside or outside a company-sponsored retirement plan. Because of these costs, which include "surrender charges" for cashing out early (usually less than seven years), variable annuities need to be viewed as long-term investments for participants to reap the benefits of tax-deferred compounding.

"Certainly one should understand fees, especially the surrender charges," says Jim Hunt, a life-insurance specialist for the Washington, D.C.-based Consumer Federation of America, the nation's largest consumer group. He also warns potential buyers to be very patient with this investment: "We suggest that in order to justify an annuity, you ought to keep it 20 years for the power of tax deferral to work."

Annuities also may be less attractive to some investors now that certain capital-gains-tax rates have been cut. Annuity earnings are taxed upon withdrawal as

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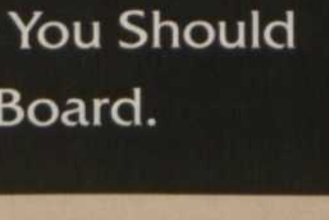

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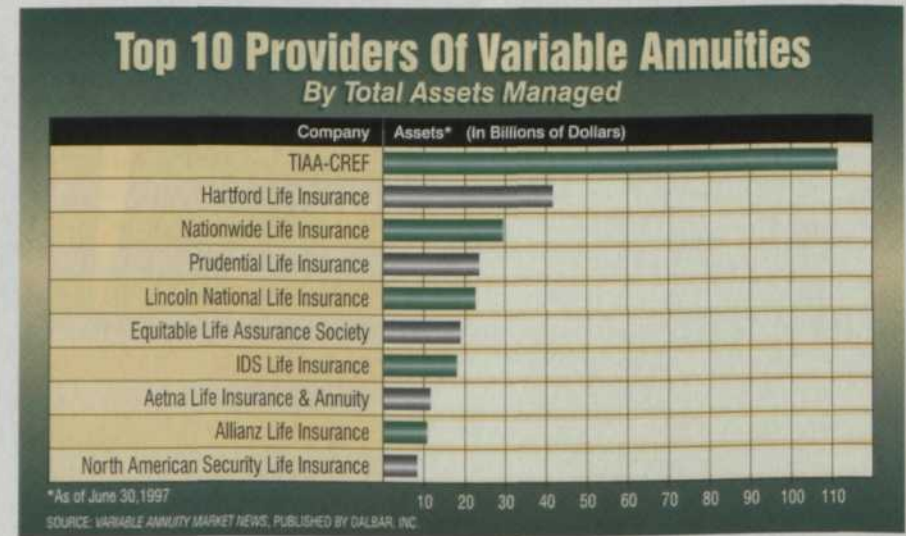
ordinary income, as are withdrawals from regular 401(k)s and individual retirement accounts (IRAs). Annuity withdrawals can be taxed at up to 39.6 percent for those in the highest income brackets.

Tax rates for long-term capital gains (gains on investments held more than 18 months) were reduced for most investors this year to 20 percent from the previous level of 28 percent. Thus, stock and mutual-fund investments are more attractive from a tax-rate standpoint, but they don't offer the tax-deferred compounding advantage that annuities do. (Dividends and interest from stocks and bonds are taxed at ordinary income rates.)

"The capital-gains-tax cut reduced the advantages of all annuities funded by stocks," says Hunt.

But the insurance industry disagrees. NAVA cites recent studies indicating that the capital-gains-tax cut does not place variable annuities at a significant disadvantage and that over the long haul the return on variable annuities will remain competitive with that of mutual funds.

Sales data since the capital-gains rate changes indicate annuities will remain an attractive investment option for many individuals and small businesses. Here are some guidelines to consider when shopping for one.



Variable Annuities For Individuals

Experts say that, for individuals, variable annuities can be worthwhile if:

■ You already are making the maximum allowed contributions to other retirement plans.

Other contributory retirement plans, such as 401(k)s and IRAs, don't carry the insurance costs that annuities do. And 401(k)s and IRAs offer possible company matching and greater flexibility in permitting special-purpose withdrawals, such as loans for buying a first home.

■ You won't need the money for a long time.

Most insurance companies charge surrender fees beginning as high as 7 to 10 percent of an annuity's assets and phasing out over several years; 401(k)s and IRAs are not subject to such fees.

Annuities, like other tax-deferred investments, are subject to a 10 percent Internal Revenue Service penalty for withdrawals before age 59½.

■ You can minimize costs and taxes.

This means shopping for a low-cost provider and trying to lower your tax rate when you start drawing on the annuity in retirement.

One business owner who fits the individual-annuity profile is Hugh Middlekauff of Hagerstown, Md., a partner in a used-car dealership in Waynesboro, Pa. Middlekauff sold another car dealership five years ago, is debt-free, has savings in taxable mutual-fund investments, and is contributing the maximum allowed to his IRAs. Now 56, he is "aggressively invested" in a variable annuity he bought seven years ago through MassMutual. He plans to postpone drawing on the annuity as long as possible.

"I don't have any company retirement plan. The variable annuity and IRAs—these are my retirement money," Middlekauff says, expressing satisfaction with both investments. "I wish I had known about them [annuities] when I was in my 30s instead of my 40s."

Variable Annuities For Businesses

Variable annuities may be beneficial for business owners who want to provide a secure retirement benefit to employees while minimizing administrative paperwork and taxes for themselves. About 10 percent of all variable annuities sold last year were incorporated in company-sponsored retirement plans, according to LIMRA International of Farmington, Conn., which tracks insurance sales and marketing data.

Variable annuities can be packaged with any kind of qualified retirement plan, including IRAs, Simplified Employee Pensions (SEPs), Savings Incentive Match Plans for Employees (SIMPLEs), 401(k) and 403(b) plans (corporate and nonprofit tax-deferred savings plans, respectively), Keoghs, and pension trusts.

Typically, an insurance company writes an individual variable-annuity contract for each employee in the retirement plan. The insurer offers annuity customers special "subaccounts" to invest in. These subaccounts are essentially clones of the insurer's regular mutual funds.

The retirement plan financed with variable annuities functions just as it would if financed with another investment vehicle, such as mutual funds.

For instance, participants in a 401(k) plan using variable annuities contribute pretax earnings to their accounts through salary deferral; the earnings grow tax-deferred; contribution limits are the same ($9,500 per employee in 1997, increasing to $10,000 in 1998); and the plan is subject to IRS "nondiscrimination testing" to ensure equitable treatment between high- and low-paid employees.

For businesses and their employees, variable annuities used with a retirement plan have certain pluses:

■ The insurance company's fees cover the handling of all of the plan's requirements for IRS reporting, salary-discrimination testing, and participant communication. The fees include a charge for the death benefit and an array of insurer-provided investment services, such as automatic reallocation of assets. With regular mutual funds, the employer may opt to handle reporting requirements internally, pay the mutual fund to do so, or hire a plan administrator.

■ Employers can deduct company-paid matching contributions to an annuity, as they can with a 401(k) or other retirement plans.

■ Participants receive a death benefit, meaning that the employee's contributions are guaranteed if he or she dies during a downturn in the market. Investments in a 401(k) offering regular mutual funds could lose principal in a market decline.

■ One of several investment-fund options offered by a variable annuity is a guaranteed-interest-rate account, which typically pays 1 to 2 percentage points above rates on certificates of deposit offered by banks. Regular 401(k) plans may

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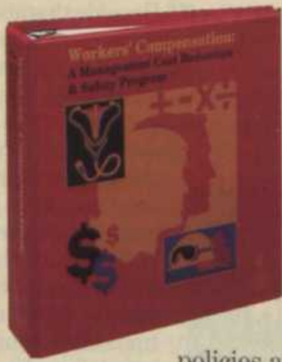

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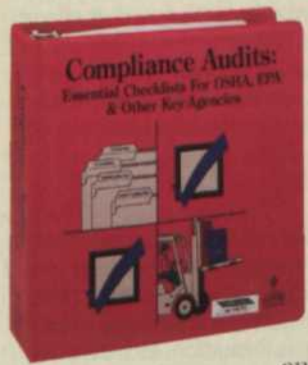

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offer a similar account, known as a guaranteed investment contract, or GIC.

■ Participants can self-direct their assets in different subaccounts that diversify the investments, just as they can in a typical 401(k) plan offering mutual funds.

Caveats To Consider

In deciding whether to buy variable annuities, however, it's important to consider not only the insurance expenses (typically about 1.25 percent of assets) and the early-withdrawal fees but other factors as well. One is that the tax-deferral benefit is duplicated—or essentially wasted—when an individual variable annuity is used inside an IRS-qualified retirement plan that is already tax-deferred, such as a 401(k) or an IRA. "Doubling up" the tax deferral produces no benefit to either the employer or the employees.

In addition, the ability to make unlimited contributions to a variable annuity is lost when the annuity is used in another qualified retirement plan. For instance, no more than $9,500 a year ($10,000 in 1998) can be contributed by an employee to a 401(k) plan, and no more than $2,000 a year can be put into an IRA, whether its investment vehicle is a variable annuity or a mutual fund.

But for most workers, these may be small drawbacks in return for the investment security. For employers, having the insurer perform all administrative services can be a big attraction.

"The question is whether the added expense that goes into a variable annuity is worth the extra features," says Patrick Reinkemeyer, editor of *Morningstar Variable Annuity/Life Performance Report*, published by the Morningstar investment-research company in Chicago. "It's a cost trade-off and a service trade-off." He adds that using variable annuities in a retirement plan "may not be less expensive, but they're easier to deal with. For businesses, they're a one-stop-shopping package."

How An Annuity Differs From An IRA

	Annuity	IRA
Tax-Deferred Growth	✓	✓
Tax-Deductible Contributions	✗	✓*
Tax-Free Transfers Among Investment Choices	✓	✓
Mandatory Annual Tax Reporting	✗	✓
10% Early Withdrawal Penalty	✓	✓
Unlimited Annual Contributions	✓	✗
Mandatory Withdrawals At Age 70½	✗	✓
Surrender And Insurance Charges	✓	✗

SOURCE: FIDELITY INVESTMENTS

*Depending on income level and eligibility for other retirement plans.

Some companies choose the "group annuity" approach for a qualified retirement plan, in which the insurance contract is owned by the company rather than the individual participants. Under federal law, annuities owned by a "nonnatural person" (meaning a company) lose both the tax-deferral benefit and the death benefit.

However, the tax deferral is regained when a group annuity is used inside an IRS-qualified retirement plan, such as a 401(k).

Employers benefit because the insurance company handles all the paperwork, while workers get the option of a guaranteed-return account and a wider range of investment services from the insurer. Also, group annuities have lower administrative fees than individual annuities because there is no death-benefit cost.

One company that uses a group annuity in its 401(k) plan is FRS Industries, Inc., of Fargo, N.D., a 112-year-old firm that makes awards, ribbons, and other specialty items. The company set up a group annuity in 1987 through the Principal Financial Group of Des Moines, Iowa, and offers its workers nine different Principal funds in which to invest. The options include international, small-capital, large-capital, and blended-capital funds as well as a guaranteed-interest account.

"All of my employees who are eligible are participating and contributing to the plan," says Tim Dockter, treasurer and co-owner of FRS. "Judging from that, I think they're pretty happy with it."

Decision Factors

While providers emphasize the benefits and critics emphasize the drawbacks, neutral observers say the most important factor is to know what you're buying.

"You have to look at the quality and diversity of the underlying funds. You have to be sure you have enough diversity [of investment choices] to move about your assets so you can adapt to changing goals. And you have to look at the cost of the product," says Morningstar's Reinkemeyer. "Those are the things I'd focus on." ■

Information Sources On Variable Annuities

Most companies that offer annuities provide specific information about their products and the associated costs and options. Many prospective customers turn to their insurance agents for help, such as financial scenarios on how a fixed or a variable annuity might perform. Here are some useful resources reviewed by *Nation's Business*.

Educational Brochures

The Vanguard Group offers a free analysis of the pros and cons of annuities, *Some Plain Talk About Variable Annuities*; for a copy, call 1-800-522-5555.

The National Association for Variable Annuities offers a free brochure, *Variable Annuities: Unique Benefits for Retirement Planning*; call (703) 620-0674 for a copy, or visit the organization's Internet site at *www.navanet.org*.

For information about a specific product, contact your insurance agent or annuity provider directly for a brochure and prospectus.

Directories

Annuities Online, a national marketing organization sponsored by the insurance industry, operates a useful Internet site (*www.annuity.com*) that provides links to other annuity information, including a list of the approximately 110 companies that sell the more than 250 variable-annuity products.

Analysis

Morningstar Variable Annuity/Life Performance Report, a newsletter available monthly for $295 a year or quarterly for $145 a year, reviews annuity plans. For more information, call 1-800-735-0700.

Software

Many annuity providers post information about their products on their Internet sites and offer special computer programs, typically through a representative, to draw annuity scenarios.

Fidelity Investments, for example, has an interactive computer worksheet called AnnuityMatch on its Internet site (*www.fidelity.com*) to help individuals determine whether an annuity is a sensible investment for them.

T. Rowe Price offers free interactive software, Variable Annuity Analyzer, which individuals can load on their personal computers to evaluate variable annuities. For information, call 1-800-341-0790.

SMALL BUSINESS FINANCIAL ADVISER

BUSINESS DEDUCTIONS

Tax Options For Handling Obsolete Inventories

If you have excess or obsolete inventory, you have two ways to turn it into a tax deduction: write it down or give it away. For many small businesses, the best option might be to give it away.

Inventories of any type can be donated to charity, but not all companies get the same deduction for donating the same types of goods, says Gary L. Rodgers, a partner with accounting firm Kennedy and Coe in Englewood, Colo.

If your company is an S corporation, a partnership, or a sole proprietorship, and if you donate inventory to a charity that uses the goods to help people who are ill or needy or to help children, you generally can take a tax deduction for your cost of producing the inventory.

For C corporations, the deduction increases to the cost of the inventory plus half the difference between that cost and the fair market value of the goods—not to exceed twice the cost of the inventory.

Once you have mastered the math, your next hurdle is to find a nonprofit organization that can use your old inventory. United Way and Goodwill Industries, two of the nation's largest charitable organizations, typically accept donations of food, clothing, and furniture.

Many churches also receive and distribute donated items, but they may not be able to accept all the types of products you want to donate. That's where organizations such as Gifts In Kind International and the National Association for the Exchange of Industrial Resources (NAEIR) enter the picture.

Redistribution Channels

Gifts In Kind International in Alexandria, Va., (703) 836-2121, has a list of about 50,000 charities to which it can channel donated goods; it gave away over $230 million worth of goods last year.

The NAEIR is a charity clearinghouse with warehouses in Galesburg, Ill., and Porterville, Calif., and can be reached at 1-800-562-0955. It collects donated goods and distributes them to more than 10,000 nonprofit members such as hospitals, schools, churches, and homeless shelters. These nonprofits pay annual dues of $275 to $575, and most receive more than $10,000 in goods each year.

"Our fastest-moving items are office supplies, toys, clothing, power tools, electrical and plumbing supplies, and janitorial supplies," says Jack Zavada, director of communications, "but it's amazing what organizations can use."

His favorite example: a donation of 10-gallon tins of pickled sharks used for high-school biology classes. They were gone in less than a week, he says.

Another unusual donation: 200,000 arrows from True Flight Arrow Co. in Monticello, Ind., the world's largest arrow assembler. "We average between 50 and 80 employees a year who [collectively] produce between 20,000 and 50,000 arrows a day," says John Gooding, the firm's president.

"We sell to large retailers like Wal-Mart and Kmart, so we have to keep a certain level of inventory on hand. What typically happens is a [retailer] will start ordering a different stock number, which leaves us with an inventory of obsolete arrows."

The NAEIR was Gooding's fourth choice for disposing of the arrows. "We first offered the arrows to the customer at a discount," he says. "The following year we tried a deeper discount. After that we looked at what liquidators were willing to pay. When the liquidator's price was too low, we decided to donate the inventory." The NAEIR targeted the arrows to high-school archery programs.

The Write-Down Option

If you prefer not to give away inventory, try writing down its value to get a tax deduction. It's not too late to get a deduction for the current tax year, but you need to move fast, says Harry Cohen, a partner with Stonefield Josephson, an accounting firm in San Francisco.

Inventory items that cannot be sold at regular prices may be valued at the net realizable value (selling price less direct costs of disposition) if the items are actually offered for sale within 30 days after the inventory date.

That means if you take an inventory at the end of December and offer the items for sale (to establish the lower price) before the end of January 1998, you can deduct the decline in value on your 1997 business tax return.

Congress this year made it somewhat easier to take a deduction for inventory shrinkage resulting from theft, breakage, and bookkeeping errors, says Rodgers. Under a provision of the Taxpayer Relief Act of 1997, passed in August, "if you took a physical inventory during 1997, you can now take a deduction for shrinkage based on a year-end estimate rather than an actual December inventory," says Rodgers. While there are some exceptions, the new rule generally applies to companies with tax years ending after Aug. 5, 1997.

Under prior law, companies were required to take actual inventories at year's end to establish shrinkage.

The Need For Forecasting

For florists, grocers, and other businesses dealing with perishable inventories, the best way to avoid excess inventory is to develop a nose for forecasting the exact amount needed to meet customer demand, says Ron Lies, owner of Ehninger Florist in South Bend, Ind. "I've been a florist for 14 years," says Lies, "and you have to be 1,000 times better today at forecasting sales and inventory. Shrinkage—in our case, old flowers—can kill you."

Lies must estimate in August what the demand will be for Christmas poinsettias. Before placing his order, he first looks at last year's sales numbers and then factors in local economic conditions. And what happens to all the poinsettias the day after Christmas?

"We dump them," says Lies. "We offer them first to hospitals and nursing homes. But because poinsettias can be hard to care for, many institutions don't want them, and my employees are tired of them. We hold a few back for January funerals, toss the rest, and get a deduction for the inventory cost of the flowers. No florist should end up with more than a couple poinsettias after Christmas."

And no business should pass up available tax breaks for disposing of obsolete or excess inventory.

—Gloria Gibbs Marullo

The author is a CPA and business writer in South Bend, Ind.

INVESTING

The Appeal Of Treasury Bonds

By Randy Myers

If they're good enough for the Oracle of Omaha—renowned investor Warren Buffett—perhaps they're good enough for you, too.

We're talking about U.S. Treasury bonds, the tools used by the federal government to borrow money from investors. Treasuries got some unexpected publicity in the fall when *The Wall Street Journal* reported that Buffett had bought approximately $2 billion worth of them.

Soaring stocks have been the big story in the investment world over the past three years, of course, and so learning that master stock-picker Buffett was buying into bonds was a bit like learning that Michael Jordan was going to play baseball a few years ago—surprising, to say the least.

But Treasury bonds can have enormous appeal. They're safer than corporate and municipal bonds because Treasuries are backed by the U.S. government. That means you face almost no risk of losing principal if you hold them until they mature.

In addition, with many people worried about the stock market's volatility in late October, bonds can add a cushion of diversity to a stock portfolio. When stock prices fall, bonds typically fall less and continue to pay interest in the meantime.

It's true that the interest rates on Treasuries are near their lowest levels of the past 20 years (about 6.2 percent for the bellwether 30-year Treasury bond in early November). But inflation is also at extraordinarily low levels, around 2 percent. That means the real return on Treasury bonds (the difference between what they yield and the inflation rate) is quite respectable at 4.2 percent.

If you think Treasury bonds make sense for you, decide first whether you merely want to diversify your portfolio, or, like Buffett, speculate that interest rates are going to fall. (Bond prices go up when interest rates drop. If that happens now, Buffett stands to reap a windfall.)

Two Ways To Buy

You can diversify your investment portfolio with Treasuries in two ways: by purchasing individual bonds (they trade in denominations of $1,000 and up) and by purchasing a bond mutual fund.

Funds offer trouble-free professional management and a diversified portfolio—at a price. A small part of your purchase (usually less than 1 percent) will be used to pay the fund's operating expenses, and the fund also pays commissions when it buys and sells securities.

In addition, funds sold by brokers often charge sales fees, or "loads," equal to several percentage points of your initial investment.

While no-load funds avoid sales charges, the cheapest route to investing in Treasury bonds is to buy individual bonds from the government though its Treasury Direct program.

With Treasury Direct, you submit a simple one-page bid form, or "tender," to any of 37 different Treasury Direct offices across the country in advance of one of Treasury's periodic bond auctions. For information on opening a Treasury Direct account, call the Treasury Department's Bureau of Public Debt at 1-800-366-3144, or visit its Internet site at *www.publicdebt.treas.gov*.

If you do build your own bond portfolio, mitigate your exposure to interest-rate fluctuations by building a bond ladder. That is, create a portfolio of bonds maturing at staggered intervals.

With $5,000, for example, you might buy a $1,000 bond maturing in 10 years and others maturing in seven, five, three, and two years. When the two-year bond matures, buy a new 10-year bond. Repeat the process as each bond matures, always buying a new 10-year security.

Then, as interest rates go up, you'll have new money to invest periodically at those higher rates. But if rates fall, some of your bonds will still be earning interest at yesterday's higher rates.

The Speculative Strategy

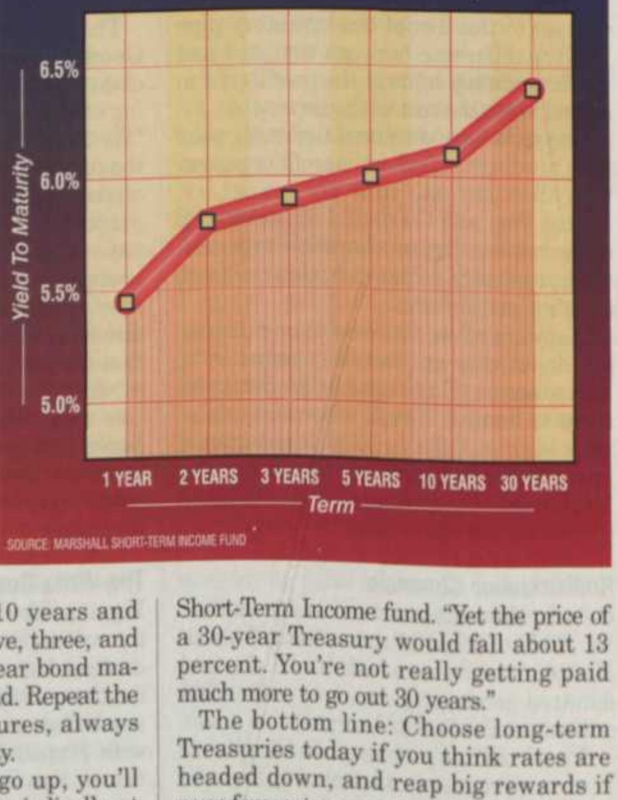
If you are certain that interest rates are poised to plummet and you want to place a bet on your conviction, buy long-term Treasury bonds that mature over 30 years. Because these bonds require you to shoulder the risk of interest-rate changes for the longest time, they almost always pay a higher rate of interest than Treasury notes (Treasury bonds maturing in one to 10 years) and Treasury bills (Treasury bonds maturing in a year or less). They also react more dramatically to interest-rate changes for the same reason.

Not the gunslinger type? Then consider five-year Treasuries, which at about 5.8 percent in early November were yielding almost as much as 30-year bonds despite their lower risk profile.

"If interest rates rose 1 percentage point, the price of a five-year Treasury note would fall about 4.3 percent," says Mark Pittman, manager of the Marshall Short-Term Income fund. "Yet the price of a 30-year Treasury would fall about 13 percent. You're not really getting paid much more to go out 30 years."

Treasury Bond Yield Curve

The U.S. government issues Treasury bonds with a variety of maturity terms. Generally, short-term Treasuries yield less than long-term Treasuries. Here's how the yields stacked up in mid-September.



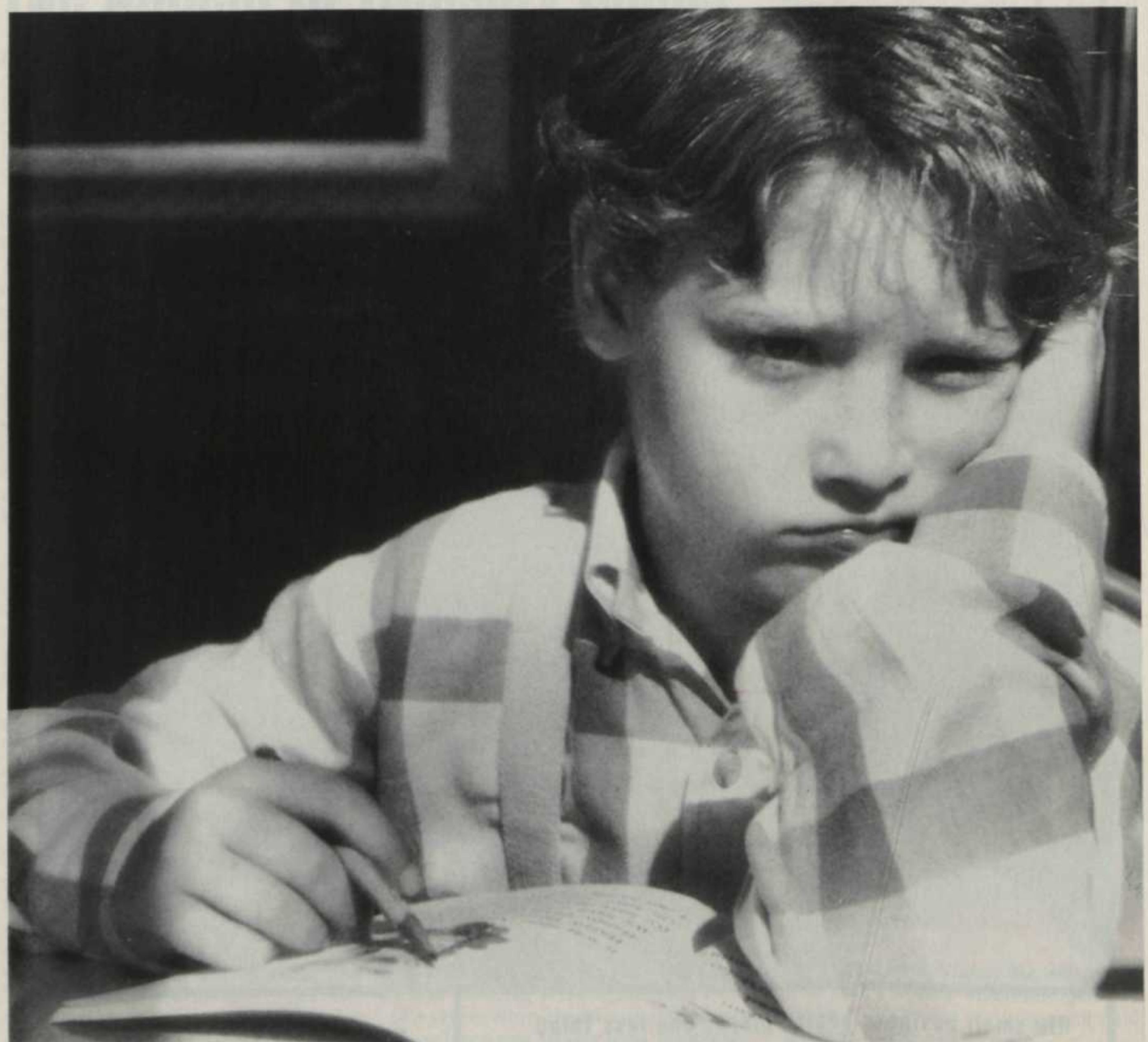
SOURCE: MARSHALL SHORT-TERM INCOME FUND

The bottom line: Choose long-term Treasuries today if you think rates are headed down, and reap big rewards if your forecast proves correct. Go with five-year notes, and you'll still earn good returns but suffer less if rates turn against you. Or shun market timing and build a bond ladder that straddles the middle of the bond road.

By being true to your investment objective, you should be able to avoid unpleasant surprises in your Treasury bond portfolio and perhaps reap some very nice rewards. NB

Randy Myers, formerly a writer and editor for Dow Jones & Co., Inc., is a financial writer in Dover, Pa.

He may be a good kid with a bad case of Tourette Syndrome.



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MARKETING

Taking Guesswork Out Of Pricing

Determining how much to charge for a product or service involves factors that many small firms overlook.

By Roberta Maynard

Wholesaler Danny O'Neill wants to be known by upscale restaurants, coffeehouses, and grocers as a provider of top-quality gourmet coffee. So he works hard at justifying gourmet-level profit margins for his company, The Roasterie, Inc., in Kansas City, Mo.

Says O'Neill: "The better service you can give, the higher the price you can charge, the more you can prepare for the future."

By adopting this simple approach, O'Neill has taken an important first step toward pricing his products effectively. Clarifying a company's positioning strategy—deciding, as O'Neill has, whether to be an upscale niche business, a market leader, a lowest-cost provider, and so on—is an important element of determining pricing. But it's far from the only one.

In fact, the most common mistake made by small companies is their failure to consider the many interrelated factors that should affect pricing decisions, says Dan Roth, manager of business consulting in the Orange County, Calif., office of the Arthur Andersen Enterprise Group, a consulting arm of the Chicago-based Arthur Andersen accounting firm.

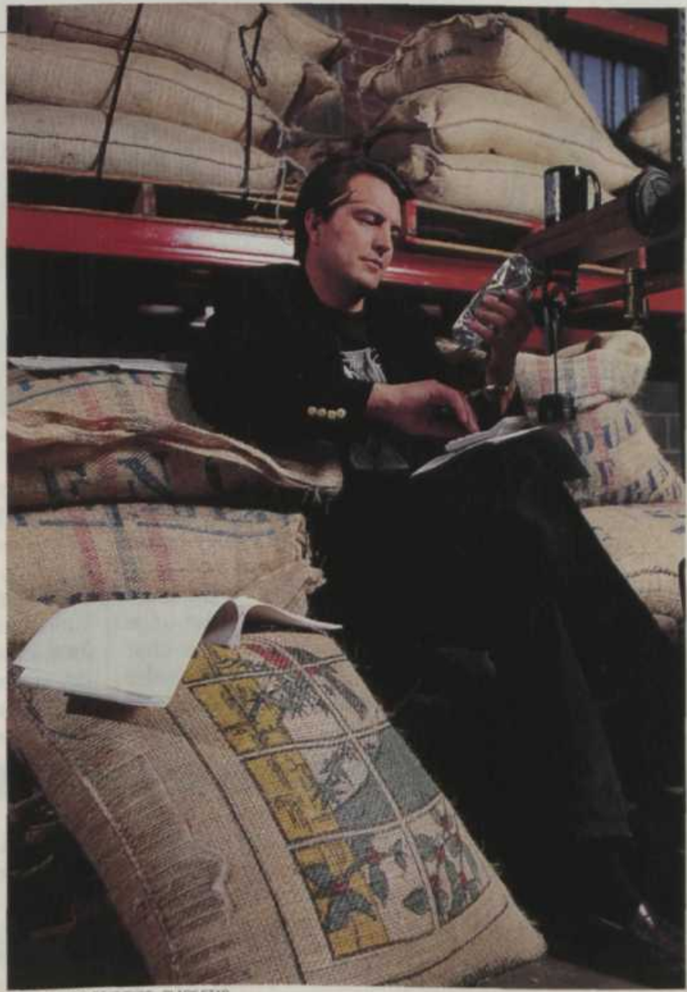


PHOTO: ©CHARLES KNEYSE—BLACK STAR

Explaining to customers *why he recently had to raise prices, says coffee wholesaler Danny O'Neill, lent credibility to his firm, The Roasterie in Kansas City, Mo.*

Business owners, Roth says, typically price products arbitrarily or base their prices on only one factor, usually their production costs or the price charged by the competition for similar goods.

Pricing, Roth says, should take into account your costs, the expected costs of product updates and new equipment, your objectives for each product (if it's to be a loss leader, for example, or it's a product you expect to phase out), and competitors' offerings. For example: What are they charging? And what are they offering for that price?

Customer perceptions, involvement of distributors and suppliers, government regulations, ethical considerations, and economic conditions also may play roles.

Experts in pricing generally say that the following factors are often the most critical to profitable pricing of products:

Know The Market

Talk with everyone who has a sense of marketplace pricing—distributors, suppliers, salespeople, and customers—and monitor your pricing decisions constantly.

Ellen M. Kruskie, owner of Carolina PetSpace, often gets unsolicited feedback from customers, who bring pets to her do-it-yourself pet-washing facility in Raleigh, N.C.

At first, Kruskie says, "my customers told me I [didn't] charge enough." After two years in business, she took their advice and changed the basis of her pricing from what she needed "to keep [her] storefront business afloat," she says, to one that more accurately reflects the value of the service she offers and what customers are willing to pay.

Customers also are good sources of information when you're contemplating adding a service or product. Says Arthur Andersen's Roth: "If I talk to enough people, I'll get a good idea whether there is a demand and what I can charge."

When O'Neill took a page from the book of local breweries and started renting out a room for after-dinner and coffee parties, he called "all the catering people in town" to get a good idea about what he should charge. He learned that his price should reflect the cost of extra trash pickups and additional refrigeration.

O'Neill started the service by establishing a base price and adding per-hour extras for such amenities as staff and condiments. But customers soon let him know that they preferred to pay an all-inclusive price even if it meant paying more for the service.

Know Your Costs

Small firms often have a false sense of what it actually costs them to deliver a product or service. This makes it almost impossible to structure their margins appropriately, says Ed Galvin, a partner in the Chicago office of Coopers & Lybrand's entrepreneurial-advice services.

Often, the problem is an accounting system that doesn't provide sufficient information, says Galvin. An accountant can help determine the key components of

product cost and recommend ways to track them. Software can help, too. Companies with yearly revenues in the range of $3 million to $7 million are operating successfully with inexpensive off-the-shelf accounting software and a personal computer, Galvin says.

Unfortunately, Galvin notes, even among small firms with enough information to analyze their expenses accurately, the tendency is simply to match competitors' prices. In their eagerness to record sales, he says, business owners often don't factor into their prices their costs for things such as inventory, packaging, freight, indirect labor, losses from failures and returns, and extensions of customer payment schedules.

PHOTO: ©MICHAEL STEINBERG—BLACK STAR

The "distinguishable difference" *about his moving company, says Peter J. Kolp, president, is outstanding service, not excessive discounting. Lending him support is employee Wilbur Ingram.*

Also, a company might customize an order in some way to win the business yet fail to build the customization cost into the price, Galvin says.

Moreover, matching or beating the lowest price isn't always the best strategy. "It can actually work against a service firm," says Herman Holtz, an engineering consultant in Silver Spring, Md. "Customers judge the value of a product by the price when they don't have anything else to go by. Many consultants have told me that when they raised their prices, their sales went up because the customer felt better" about the quality of the service.

Differentiate Your Product

Unless your strategy is simply to be the least expensive among sellers of your product, you can't hope to rise above today's cost-cutting environment without offering something that customers view as superior or

The Language Of Pricing

Determining your marketing goal for each product or service makes it possible to create a cohesive, overall pricing strategy and to measure results.

Are you considering all the possibilities? Listed below are the most common terms that describe various pricing tactics. These terms and their definitions were supplied by the Chester Marketing Group, Inc., in Washington Crossing, Pa.

Flexible pricing refers to allowing for price changes to meet changing competitive and marketplace conditions. This usually is necessary in the middle of a product's life cycle.

Skim refers to pricing at an inordinately high level to hit the "cream" buyers. This applies to unique or cutting-edge products.

Slide down means to move prices down over time to tap successive market groups.

Penetration is pricing below the prevailing level to gain market entry or increase market share.

Elasticity is pricing to take advantage of known or perceived price flexibility.

Bundling means pricing several related products and/or services together to provide a competitive advantage.

Price to market refers to a pricing level that is just below where you begin to lose market share.

Psychological pricing means pricing at a level that "sounds" lower than it is; an example would be "$99.95."

Follow means raising or lowering prices when industry leaders do.

Segment pricing refers to pricing the same products differently in different markets.

Cost-plus pricing is built up from a cost "floor," generally on a percentage basis.

Pre-emptive pricing is very low, to discourage competitive market entry by making the market appear unattractive.

Phaseout pricing means pricing high to remove a product from the line.

Loss leader refers to forgoing profit on an item to attract buyers to other, usually higher-priced ones.

Push versus pull is the pricing trade-off between motivating the sales network and pleasing the customer.

Terms and conditions can be components of a pricing strategy. An example is an airline's restrictions for various discount fares for a given flight.

unique. Perhaps no one knows that better than Peter J. Kolp, president of Andrews Moving and Storage in Cleveland. Kolp's company has been caught in an industry-wide discounting whirlwind. A moving job that cost $23,000 five years ago can be had for about half that today, Kolp says.

Andrews competes with thousands of moving companies, 30 in Cleveland alone. Recent visits to customers made it clear to Kolp that they didn't really differentiate between his company and others. At the same time, he knew that price cuts couldn't go on indefinitely.

After some soul-searching, he says, he decided to "take steps to draw a line in the sand" and develop outstanding service to justify charging higher prices.

> **"The key is to identify what your strengths are compared with competitors'. Do you have a better product, better supply, better delivery time? If you talk about quality, you can usually drive profit up."**
> —Ed Galvin, Coopers & Lybrand

"We've got to do whatever is possible so that we can say to our customers that there is a distinguishable difference. We're not going to discount as much as others. We may lose some business, but over the long run, we're going to be better off."

Galvin of Coopers & Lybrand commends what Andrews is now doing: "The key is to identify what your strengths are compared with competitors'," he says. "Do you have a better product, better supply, better delivery time? If you talk about quality, you can usually drive profit up."

As coffee wholesaler O'Neill says: "You can't just say the market is charging $3, so I'll charge $4. You've got to justify that price.

"We deliver for our customers," he says. "There's no fine print with us, and people know that. That's our strategy: to be the best—not the biggest or the cheapest."

Communicate With Customers

Informing customers of your plans before you raise prices is a good strategy for maintaining business and goodwill, experts agree.

If you plan increases, set a date to impose them and notify customers so they can place an order before the prices change. In fact, Roth advises his clients to increase prices at set times each year. September is a good time, he says, because "most companies have [their] strongest revenues in the third quarter and are more likely at that point to order ahead."

When pet-care entrepreneur Kruskie decided to refine her pricing structure last January, basing prices for dog baths on weight and coat type, she posted a sign in advance of the rate adjustment. In addition, she gave customers a chance to prepay at the old, lower prices while rewarding them with a free wash.

When increases are sudden or likely to continue, good communication with customers is critical. It's a situation O'Neill faced this year when the cost of green coffee rose dramatically.

By mid-March, coffee prices were nearly double what they had been in January. O'Neill found that he "couldn't increase prices fast enough to keep up." He sent a six-page letter to his 300 customers about the cost of coffee.

In it, he explained what The Roasterie was doing to control costs and suggested things customers could do. He included copies of newspaper articles detailing the price increase. O'Neill believes that this approach gave him credibility, and he hasn't lost one customer as a result, he says.

As important as pricing is, it is just one component of a marketing plan, notes Arthur Andersen's Roth. Taking into account many related factors and adopting a long-range view of an industry and business, he says, will help small firms price their products effectively and find new opportunities for profit through pricing. NB

Roberta Maynard is a business writer in Washington, D.C.

Exploring The Subject Further

These books offer in-depth looks at pricing from different perspectives:

Power Pricing: How Managing Price Transforms the Bottom Line by Robert J. Dolan and Hermann Simon (The Free Press, $40) offers a comprehensive look at competitive-pricing strategies and includes sophisticated mathematical models to determine profit and volume growth.

Price To Sell: The Complete Guide To More Profitable Pricing by Herman Holtz (Upstart Publishing Co., $27.95) is geared to pricing of professional services, particularly consulting.

TAXES

Points For Paring Your Tax Bill

It's pencil-sharpening time for those who want to make the most of tax-law changes affecting 1997 returns.

By Joan Pryde

Federal tax laws enacted over the past two years have created several year-end tax-saving opportunities for small-business owners.

Although two key tax-related laws enacted in 1996—the Small Business Job Protection Act and the Health Insurance Portability and Accountability Act—may pale in comparison with the Taxpayer Relief Act of 1997, enacted Aug. 5, those 1996 laws contain several important changes that are new for the 1997 tax year.

This is the first year, for example, that the self-employed may deduct a portion of their premiums for long-term-care insurance. The deduction, however, is limited to 40 percent of the total cost, the same limit that applies to health-insurance premiums paid by the self-employed.

"You might think about going out and getting long-term-care insurance now so you can deduct it on your 1997 return," says Susan Jacksack, a small-business analyst with CCH Business Owners Toolkit of Riverwoods, Ill., an online information source for small-business owners.

In 1996 Congress increased the health-insurance deduction available to the self-employed from 30 percent to 40 percent effective in 1997. Under a provision in the 1997 tax law, the deduction will rise to 45 percent in 1998 and will continue climbing in stages until it reaches 100 percent in 2007.

Although the health-insurance and long-term-care deductions for 1997 are limited to 40 percent, Jacksack says it's important to remember that the other 60 percent of premiums can be included in itemized medical expenses, which can be deducted to the extent that the total exceeds 7.5 percent of adjusted gross income.

In another health-related change enacted in 1996 to take effect in 1997, the law now permits penalty-free withdrawals from individual retirement accounts (IRAs) for medical expenses that exceed 7.5 percent of a taxpayer's adjusted gross income. In addition, self-employed individuals may make penalty-free IRA withdrawals to pay their health-insurance premiums.

These changes offer "a way of converting your IRA account into a sort of emergency medical account," says Jacksack.

Capital Gains

The recently enacted Taxpayer Relief Act creates immediate savings opportunities on individual long-term capital gains, though there were no changes in corporate capital-gains rates, which go as high as 35 percent. Most of the law's other major changes, including a significant reduction in the estate tax for small-business owners, don't take effect until 1998.

Even so, now is the time to begin thinking about ways to use the provisions in the 1997 law to minimize taxes in 1998 and beyond, according to tax experts.

This past summer's tax law cut the long-term capital-gains-tax rate to 20 percent from 28 percent, effective July 29. Under previous law, long-term was defined as one year. Under the new law, assets must be held for 18 months to qualify for treatment as a long-term gain.

Assets held longer than a year but less than 18 months are considered medium-term and will continue to be taxed at 28 percent.

The law created a number of other capital-gains-tax rates depending upon the type of asset sold, the date the sale took effect, the length of time the asset was held, and the seller's tax bracket. (See the chart on Page 31.)

Now that capital-gains rates are at their lowest since 1986, a key question for many small-business owners, particularly those close to retirement, is whether it's time to sell the business, says Peter DeMarco, director of the tax-services group at the accounting firm of Meaden & Moore in Akron, Ohio.

For business owners who hold stock or other securities, now may be the time to re-examine portfolios.

Reviewing Estate Plans

The new tax law also creates opportunities to save on estate taxes, so small-business owners should start planning now to take full advantage of those changes when they go into effect next year.

Owners may need to restructure their wills to make sure they take advantage of the increase to $625,000 in 1998 in the so-called unified credit. This is the amount that escapes federal gift and estate taxes. The credit had been $600,000 since 1986. Under provisions of the new law, the credit will continue to increase each year until it reaches $1 million in 2006.

For qualified family-owned businesses, an additional exclusion of $675,000 for 1998 brings the full amount exempt from estate taxes to $1.3 million. The exclusion will decline each year by the same amount that the unified credit increases, with the result that the total exemption available to closely held businesses will remain at $1.3 million.

Business owners need to be aware that the unified credit and the special exclusion apply not only to the owner but also to the owner's spouse. Thus, if a family-owned business is involved, that could mean a $2.6 million exemption—$1.3 million for each spouse—with careful estate planning.

Although the new tax law does not provide for inflation adjustments in the unified credit or the special small-business exclusion, other related items are indexed for inflation.

One key item is the annual gift-tax exclusion, which currently allows a taxpayer to make tax-free gifts of up to $10,000 a year to relatives or friends. Beginning in 1999,

the gift-tax exclusion will be adjusted periodically for inflation in increments of $1,000. That means no change will take place until the cumulative effects of inflation raise the amount by at least $1,000.

DeMarco says he often sets up planned-giving programs with his clients to take maximum advantage of tax-free gifts, a strategy that reduces taxable estate value. Both the increase in the unified credit and the forthcoming inflation adjustments for the gift-tax exclusion make it important for taxpayers to start now to re-evaluate their gifting strategies, he says.

Points To Consider

Here are additional new tax provisions effective in 1998 that offer planning opportunities:

■ Matching retirement contributions by the self-employed, including partners, will no longer be counted toward the elective deferral limit of $6,000 for the Savings Incentive Match Plan for Employees (SIMPLE plans) or $10,000 for 401(k) plans, up from $9,500 in 1997.

For example, for partnerships, the new law permits matching contributions made for partners to be treated the same as matches for regular employees of the partnership. That means a partner may contribute up to $10,000 to the company 401(k) plus receive a company match and not have the match count toward the $10,000 limit on employee deferrals. However, self-employed business owners need to amend their firms' retirement plans so they are eligible for matches.

■ The 15 percent excise tax on IRA or retirement-plan withdrawals above $160,000 annually, or on a lump-sum payment of at least $800,000, is eliminated effective next year. (The excise tax has applied only to withdrawals after age 59½; withdrawals of any amount before 59½ are subject to early-withdrawal penalties.)

Also repealed next year is a 15 percent levy on so-called excess assets at the time of death. Such assets have been those above the amount needed to generate a payout of $160,000 a year.

The Capital-Gains Maze

This chart shows capital-gains-tax rates resulting from changes enacted Aug. 5. (Short-term capital gains, defined as gains on assets held 12 months or less, are still taxed at the seller's regular income-tax rate, which can be as high as 39.6 percent.)

The new, lower capital-gains rates depend on the type of property that was sold, the date the sale took effect, the length of time that the property was held, and the seller's tax bracket.

	Effective Date Of The Sale	Length Of Time The Property Was Held	Tax Rate On The Capital Gain
Capital Assets Sold By Those In Tax Brackets Above 15 Percent	1/1/97 To 5/6/97	Longer Than 12 Months	28%
	5/7/97 To 7/28/97	Longer Than 12 Months	20%
	After 7/28/97	Longer Than 12 Months, Through 18 Months	28%
	After 7/28/97	Longer Than 18 Months	20%
	After 12/31/05	Longer Than 60 Months	18%
Depreciable Real Property Sold By Those In Tax Brackets Above 15 Percent	5/7/97 To 7/28/97	Longer Than 12 Months	25%
	After 7/28/97	Longer Than 12 Months, Through 18 Months	28%
	After 7/28/97	Longer Than 18 Months	25%
Capital Assets Sold By Those In The 15 Percent Tax Bracket	5/7/97 To 7/28/97	Longer Than 12 Months	10%
	After 7/28/97	Longer Than 18 Months	10%
	After 12/31/00	Longer Than 60 Months	8%

SOURCE: DELOITTE & TOUCHE LLP

CHART: ALBERTO PACHECO

■ The new Roth IRA, named for its chief advocate, Senate Finance Committee Chairman William V. Roth Jr., R-Del., is expected to have broad appeal. The annual contribution limit is $2,000, just as with other IRAs.

Unlike contributions to traditional IRAs, contributions to a Roth IRA are not tax-deductible. Post-retirement withdrawals are tax-free, however.

A Roth IRA must be in existence for at least five years before tax-free distributions can be made.

A couple can contribute up to $2,000 each to a Roth IRA if their adjusted gross income is below $150,000. Contributions phase out at $160,000. A single taxpayer's contributions phase out between $95,000 and $110,000.

■ Many taxpayers with children get a new credit of $400 in 1998 and $500 annually thereafter for each child under 17. The credit is reduced by $50 for each $1,000 that adjusted gross income exceeds $110,000 for married couples, $75,000 for individuals, and $55,000 for married taxpayers filing separately.

Tax experts advise individuals who will be eligible for the credit next year to consider now whether they should reduce their withholding beginning in January so they won't have too much tax taken out for 1998.

While considering the advantages of recent tax-law changes, don't forget to consider what could be the most important last-minute tax-saving tip for 1997: Delay receiving taxable income until the beginning of the next tax year, and accelerate tax-deductible expenses so that they can help lower your 1997 tax obligations.

But small-business owners should realize that such a strategy can backfire if taken to the extreme, says John Evans, a partner in the Enterprise Group of the Arthur Andersen accounting firm in New York City. He describes one small company that deferred income by delaying the fourth-quarter billing of customers in a particular tax year, only to discover that some of the firms that should have been billed went out of business in the interim. "It was a great tax-saving scheme," says Evans, "but it turned out economically not to be the right answer." NB

LEGISLATION

Workers' Desire For Time Off

Employers and employees say they would benefit from a time-off option rather than the mandate of extra pay for extra hours.

By David Warner

Troy Oesterblad of Go-Do Enterprises in Jonesboro, Ark., would like to let his 50 employees choose between money and equivalent time off as compensation for their overtime work.

"We have people [for whom] time is just as important as money," says Oesterblad, director of operations for family-owned Go-Do, which consists of two Arby's restaurants and a real-estate company.

Says Odessa Mitchell, a crew leader at one of the Arby's: "A lot of us working mothers need that time off sometimes to spend with our kids. The time is sometimes more valuable than the money."

But under federal labor law, workers are not allowed to trade dollars for equivalent time off from work.

The Fair Labor Standards Act of 1938 requires employers to pay hourly workers 1.5 times their hourly wage for each hour over 40 worked in one week. The law prohibits employers from offering such workers—even if they request it—compensatory time off in lieu of the time-and-a-half overtime pay.

This statute, which also established the 40-hour workweek and the first federal minimum wage, was adopted in an era of long workdays, low pay, and an unemployment rate of nearly 20 percent.

PHOTO: CJM CHAPPELL

Compensatory time off *is as important as overtime pay for some workers, says Troy Oesterblad, operations director at an Arkansas firm with two Arby's restaurants. With him is crew leader Odessa Mitchell.*

A Different Era

Today's labor market, with its low unemployment rate, is quite different, says Sandy Boyd, assistant general counsel for the Labor Policy Association, a business-backed public-policy organization in Washington, D.C. Firms are offering "really creative" work arrangements in an effort to retain skilled employees, she says.

"For a lot of workers, having the flexibility and having time is a pretty attractive part of a compensation package," Boyd says. "Generally, this makes for a more stable work force."

A number of polls support the notion that workers, particularly women, would like the option of receiving time off in lieu of overtime pay. A survey conducted for the Labor Policy Association by Penn & Schoen Associates, a survey-research firm in New York City and Washington, found that 75 percent of the public favors having a choice between comp time and overtime pay.

A survey conducted this year by the Working Women's Department of the Washington-based AFL-CIO found that among women, 61 percent want flexible hours or control over their hours. Similarly, a poll conducted in 1995 by the Women's Bureau of the U.S. Department of Labor found that the No. 1 concern of working women was flexible scheduling in the workplace.

The Labor Policy Association's Boyd says that employers favor the comp-time option because it would be another benefit they could offer employees and because evidence suggests that flexible work schedules increase employee retention and productivity.

Federal hourly employees, most of whom are represented by unions, have been allowed to take comp time since 1978. In fact, federal employee unions negotiated for the comp-time benefit.

Action In Congress

In March, the House of Representatives approved a bill that would change the Fair Labor Standards Act to allow employers to offer comp time. Workers could choose between overtime pay and 1.5 hours of comp time for every hour over 40 worked in a week. Backers of a Senate comp-time bill are expected to push for a vote next year.

The main opposition to such legislation comes from labor unions. Said AFL-CIO President John J. Sweeney in a statement issued the day the House approved its legislation: "Employees are not well-protected against employer pressure to have them 'choose' comp time over paid overtime, and the employer controls use of the comp time."

Under the bills, however, an employee's choice of comp time in lieu of overtime pay must be voluntary. An employer who coerced employees on their choice would be liable for damages. Both bills also would allow employees to cash out any comp time they had accrued. Comp-time hours in a worker's account at year's end would be cashed out automatically.

The House bill would let workers accrue up to 160 hours of comp time in a year; the Senate measure would allow 240 hours.

Oesterblad of Go-Do Enterprises, like many small-business people, says workers would welcome the option of receiving pay or time off for overtime work. "Workers should have a choice," he says. NB

TRANSPORTATION

The Dog Ate My Shipment!

Businesses share freight horror stories—and recall a few miracles.

By Steve Bates

By all accounts, the shipping manager is having a very bad day. His factory, one of the newest in China, is struggling to fill a rush order of men's and women's tennis shoes for a major retailer in the United States. He runs into problems loading cartons into a 40-foot shipping container. So he calls the importer's traffic manager in the States to determine how many shoes to put in the container.

"As many pairs as you can fit," replies the traffic manager, who also is having a bad day. "Please don't bother me with such silly questions."

Back in China, workers take the man at his word. They break down not only the shipping cartons but also the individual retail shoe boxes. The result is a spectacularly efficient use of space, but also an equally spectacular disaster after the ship docks in Seattle and the cargo reaches the footwear firm's warehouse.

The shoes aren't tied in pairs. They aren't sorted by size, by style, or by any other method. They're loose. The retailer has already advertised a big sale, and time is short. Phone lines sizzle with screams all around the Pacific Rim as the parties attempt to lay blame and seek a solution.

The importer rushes the shoes to a gigantic warehouse in Denver, where workers scramble to match them and box them. The job takes nearly three months; the remainder of the manufacturing order is canceled; the importer incurs thousands of dollars in unplanned labor expenses and eventually unloads the shipment at close to cost.

The incident, which occurred in 1996, was one of many nightmares recounted by business people to Roberts Express, an Akron, Ohio-based express-delivery company that sponsors an annual contest—called Shipment From Hell—to find the worst delivery debacle.

The shoe saga wasn't even last year's winner. And, as Roberts prepares to announce the 1997 winners and kick off the third year of the competition in early 1998, it appears that there is no shortage of eye-opening entries.

Communicate, Communicate

Simply put, things often go horribly wrong when people try to move goods from here to there. Yet, even in the worst cargo disasters, there are lessons to be learned.

At the Seattle shoe company, the moral, as related by one of the participants, was: "Communicate clearly, and never assume the other guy knows what you're talking about."

The winning entry in the 1996 contest was submitted by a Chicago firm that received an emergency order for 400 five-gallon cans from the Alaskan government; the cans were to carry fuel to portable generators being used by workers fighting a raging forest fire.

At first, the air-freight firm couldn't fit the order in its truck. Next, the company lost the cans. They surfaced sometime later in Columbus, Ohio, but they didn't fit on the designated plane. The air-freight company vowed to deliver the cans—the next week. The shipment eventually reached its destination; the fire was put out. Meanwhile, the delivery company sent its invoice to the Chicago company in near-record time.

Some causes of shipping headaches—such as bad weather—are almost impossible to avoid. However, many human errors—and some that are blamed on computers—can be minimized. Poor packaging and address errors are cited fre-

ILLUSTRATION: ALBERTO PACHECO

quently by shipping-company officials as causes of disastrous deliveries.

"Know your need and have carriers preselected for nonroutine situations," says Joel Childs, vice president of marketing for Roberts Express.

Charlie Ogle, general manager of ocean services with Airborne Express in Seattle, says: "Ask questions before you act. Don't assume anything, especially with international shipments." (For more help, see "Tips For Avoiding Package Purgatory," below.) See how your company's delivery disasters compare with these recently nominated Shipments From Hell:

■ A load of margarine travels from Denmark to Tacoma, Wash., where a ramp worker notices a leak in the shipping container. The cargo is placed in a truck bound for a warehouse, but en route the driver looks in his rearview mirror and notices yellow globs flying out of the back of the truck.

About 2,000 cartons of margarine have done a complete meltdown; the shipping documents from Denmark never specified a temperature setting for the cargo. As workers open the truck, the first comment heard is: "Anyone got any popcorn?"

■ A bulk-flour tanker truck can't unload all of its cargo into one container at the end of a run, so the driver arranges to use two bins. Trouble is, the tanker driver gets distracted talking to the owner of a snazzy new pickup truck and forgets to switch to the second bin. Suddenly, they're in a flour blizzard; even the new pickup is coated inside and out.

■ A freight company has delivery contracts with two movie studios, and one day each studio sends out an order of videotapes: one of family films, one that's X-rated. Naturally—and for reasons not specified—the videos get crossed. The managers of an adult-oriented shop are not happy with the tame movies they receive; the displeasure is even greater when the wrong films are opened at a convent.

Going The Final Mile

Though the disasters get the greatest attention, there have been some amazing success stories when delivery companies have encountered adversity.

Childs recalls the time that a fire broke out in the cockpit of a chartered plane carrying a shipment. The pilot made an emergency landing on a turnpike and got the plane off the roadway safely. The shipper arranged for a truck and another plane, and the cargo arrived at its destination on time.

In another incident, a truck broke down only a half-mile from the intended delivery point. The drivers—a man and his wife—walked to a nearby shopping center, commandeered shopping carts, and pushed the cargo down the highway to complete the delivery.

Though the disasters get the greatest attention, there have been some amazing success stories.

Kit Young, who owns a San Diego-based sportscard and memorabilia company, Kit Young Cards, relies heavily on the package-delivery business. He recalls telling an anxious collector in New York City in February 1993 that the customer's much-anticipated collectible—a trading card signed by the late baseball star Roberto Clemente—should arrive any day.

Just a few hours after talking with the collector by phone, Young learned that a powerful explosion had rocked the collector's office building—the World Trade Center. The collector wasn't hurt, but as the days passed and the package didn't surface, both men surmised that the card had been in the skyscraper's basement mail room that day and had been destroyed.

"He was devastated," Young recalls. But about three weeks later, the mail room called the New York man with the news that the package had been identified among the rubble. "The card was still in mint condition; it was unbelievable," says Young.

Others have not been so lucky. According to one entrant in the Shipment From Hell contest, an air-freight company was entrusted with a particularly crucial item: a human organ bound for transplantation in another city.

The shipping firm claimed that it simply lost the organ, but "in actuality, the shipment was run over by a forklift and thrown in the garbage," notes the contest entrant, a former employee of the air-freight company. "The forklift operator did not use caution," he continues—an assertion that would be difficult to dispute.

Along those lines, there's the story of the human brain that was sent to a lab overnight in two boxes, for reasons that are not entirely clear. As one might guess, one box arrived in good shape; the other vanished. "This was not a huge financial loss, as the lab receiving the item managed to test half a brain," notes the contest entrant. "I guess half a brain is better than no brain at all."

The other half was never found, but if it shows up, there's a forklift operator out there who probably could use it.

For information about the Roberts Express Shipment From Hell contest, call 1-800-856-7290; send a fax to (330) 773-3316; e-mail *contest@roberts.com*; or check out the firm's Web site, *www.roberts.com*. NB

Tips For Avoiding Package Purgatory

There is no foolproof method to prevent packages or shipments from being delayed, lost, or destroyed, but industry executives offer the following tips for minimizing trouble:

■ Use only sturdy corrugated boxes with room for cushioning material on all sides, and try not to reuse the boxes unless you're reshipping electronic equipment in well-insulated cartons provided by the manufacturer. If you do reuse boxes, make sure all old labels and bar codes are removed completely.

■ Pressure-sensitive packing tape is the easiest, most versatile type for sealing packages. Masking tape and cellophane tape are inadequate. "If the shipment doesn't get there intact, you're going to lose more than a day," says Ken Olsen, vice president of marketing for Roadway Express in Akron, Ohio.

■ Address each parcel legibly and thoroughly. Include the complete street address and the floor or suite number if there is one. Don't stencil labels; they will be difficult to read if they become smudged. Adding a telephone number will help if the address is illegible or can't be found. "Most problems are caused by addressing errors," says David Fonkalsrud, manager of marketing communications for DHL Worldwide Express in Redwood City, Calif.

■ Place the address and bar-code labels on the largest surface area of the package—preferably at least four inches from any edge. Placing a duplicate mailing label inside the box is a good idea.

■ Try to avoid piecemeal shipments. Items sent at different times or in multiple containers are most likely to go astray. For valuable shipments, select a shipper who has easy-to-use tracking software.

■ For international cargo, make sure you and your shipper know the customs regulations of the countries involved. Policies on duty payments and documentation vary substantially.

■ If in doubt, consult your shipper. Many shipping companies offer complimentary package testing to determine if a parcel is ready for the rigors of the road.

Small Business Technology

Software that listens; Apple's aim at small-business owners; two bargain-priced peripherals.

By Tim McCollum and Albert G. Holzinger

PRODUCTIVITY

Dictation Programs Are Finding Their Voice

How much would your productivity increase if you could dictate letters, memos, and other documents into your computer instead of typing them?

That question is becoming more than rhetorical thanks to today's powerful computers and software programs.

Speech-recognition software has been in development for nearly two decades. But until recently, the software could be used in conjunction with a microphone only to launch programs and issue basic operating commands such as "save file."

Attempts to perfect more useful and much more complex software that could transform voices spoken into a microphone into text on a computer screen proved less than successful. Early efforts required users to speak at a maddeningly slow pace, and too often the software erred in recognizing words.

However, a new generation of software, using "continuous-speech-recognition" technology, is now available to leverage the capabilities of high-powered multimedia computers. This technology allows users to dictate at a conversational pace and achieve a reasonably accurate conversion to text.

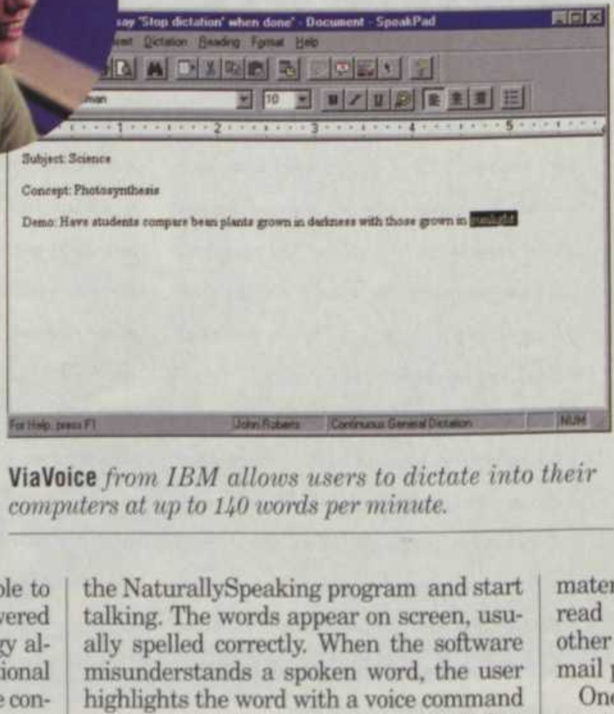
The software still is nowhere near perfect, but it might provide a productivity boost, at least for clumsy typists.

Among the most advanced of the new programs is NaturallySpeaking Personal Edition, from a small company, Dragon Systems Inc. of Newton, Mass. The $199 program, introduced in April, takes a two-step approach to transforming dictation into finished documents.

First, users dictate directly into the program; then they "cut" the resulting text and "paste" it into a word-processing or other program.

NaturallySpeaking requires "training" by users before it can recognize their speech patterns and word pronunciations accurately. The self-training is accomplished by reading sections from books by Dave Barry or Arthur C. Clarke into the microphone.

After training, users merely open the NaturallySpeaking program and start talking. The words appear on screen, usually spelled correctly. When the software misunderstands a spoken word, the user highlights the word with a voice command and corrects it by repronouncing it. If that fails, the user can select the right word from a list of similar-sounding words.



ViaVoice *from IBM allows users to dictate into their computers at up to 140 words per minute.*

NaturallySpeaking can be used to format documents, too. For example, users can speak commands to add paragraphs or to make words boldface, italic, or underlined.

The program comes with a vocabulary of 30,000 commonly used words. It includes a "vocabulary builder" tool that analyzes users' documents stored on the computer for frequently used words and adds them to the software's dictionary.

Users will need a powerful PC to take advantage of the program—at least a 133-megahertz Pentium processor, 32 megabytes of memory, 60 megabytes of hard-disk space, a sound card, and a microphone. For more information, call Dragon Systems at 1-800-825-5897.

ViaVoice, from IBM Corp.'s Software Group in Somers, N.Y., is an even newer and equally promising speech-recognition program.

At $99, ViaVoice eliminates the cut-and-paste process required by NaturallySpeaking for transferring dictated text into word-processing programs. With the IBM software, users can dictate text directly into Microsoft Word, the latest version of Lotus Word Pro, or ViaVoice's built-in text-editing program.

Like NaturallySpeaking, ViaVoice requires users to train their software to respond to their speech idiosyncrasies. This is achieved by performing brief sentence-reading exercises.

IBM says that ViaVoice allows users to dictate up to 140 words per minute. (Dragon Systems has not issued a speed rating.)

The software draws on a base vocabulary of 22,000 words, which users can expand to 74,000 words.

In addition to speech recognition, ViaVoice has a useful text-to-speech capability, which enables the software to read back to users material they have entered. It also can read back text created by keyboard in other applications, including electronic-mail programs.

One drawback of ViaVoice is that a user must employ a mouse and keyboard to correct recognition errors. In addition, to achieve the unique text-to-speech function, ViaVoice must store copies of documents as sound files, each of which can use up more than 1 megabyte of hard-disk space.

Like NaturallySpeaking, ViaVoice requires a lot of computing power—at least a 150-megahertz Pentium MMX processor, 32 megabytes of memory, 125 megabytes of hard-disk space, a sound card, and a microphone. For more information, call IBM at 1-800-825-5263. ■

Should You Consider A Mac For Your Next Office Computer?

Apple Computer Inc. appears to be making a serious effort to win back the many computer owners who abandoned Macs for Windows-based PCs during the 1990s.

According to Computer Intelligence, a market-research firm in La Jolla, Calif., only 2.9 percent of computers sold at retail during the first quarter of 1997 were Macs, compared with 10.2 percent a year earlier. However, it still is too soon to tell whether Apple's overtures to small businesses and other users will be convincing and if as a result the company will regain its lost market share.

Apple's efforts include the recent release of Mac OS 8, the improved Mac operating-system software.

Operating-system software controls the way users perform basic computer operations such as viewing the names of files stored on disk drives and printing.

For years, performing these critical but mundane chores on a Mac using the various versions of Apple's system was easier than carrying them out on a PC using Microsoft Corp.'s competing operating systems, DOS or Windows 3.1. But Microsoft essentially closed the operating-system ease-of-use gap when it produced Windows 95.

Moreover, compared with the old Mac System 7, Windows 95 is less prone to crashes that require a time-consuming computer restart and is far more adept at performing simultaneous operations such as copying files to multiple destinations.

OS 8, while not a breakthrough product, is first-rate software for relatively new Macs with 16 megabytes or more of memory. It seems to be faster, is clearly more stable, is better able to juggle multiple tasks, and is visually more pleasing than its predecessor. For example, using the mouse to drag an icon representing a file onto a file-folder icon will "spring" open the folder to reveal its contents.

OS 8 is easy and virtually foolproof to install and set up and clearly is worth the price—under $100—to upgrade from earlier versions.

Another encouraging step by Apple is production of new Macs configured with small-business owners in mind.

The flagship model of the Small Business Macintosh line is the 6500/275, which retails for about $2,800 without a monitor. (A monitor typically costs $500 to $1,500.)

Like most Macs, this computer was engineered to achieve standout graphics and communications performance, and it succeeds.

Technically sophisticated users might find the high-end components in the 6500/275 particularly appealing. These features include a fast, 275-megahertz PowerPC 603e processor by Motorola, 48 megabytes of high-speed memory, a 4-gigabyte fixed disk, a fast CD-ROM drive, a data/fax/voice modem, stereo surround-sound speakers, and solid though unspectacular video-display capabilities.

The Macintosh 6500/275 *from Apple Computer was configured with small-business owners in mind.*

Differentiating this Mac from others with similar specifications is the wide variety of business software that's included. These programs include the Microsoft Office applications, which include the Word word processor, Excel spreadsheet, and PowerPoint presentation-graphics programs. (An upgraded version of the Office suite of programs for Macs will be available from Microsoft sometime next year.)

Also included are Microsoft electronic-mail, Internet-browsing, and reference programs.

Rounding out the versatile software suite are solid business programs such as BizPlan Builder from JIAN Software; Small Business Legal Pro Deluxe from Nolo Press; and Business Phone, a nationwide "yellow pages" program from Pro Phone Inc.

In all, this Small Business Macintosh could be the ideal machine for an employee responsible not only for the graphics chores at which Macs always have excelled but also for Internet functions and general office tasks. ■

SCANNING AND PRINTING

Two Useful Devices In Small, Bargain-Priced Packages

The Easy Photo SmartPage Pro, a new product from Storm Technology Inc., continues its manufacturer's tradition of providing user-friendly image and document scanners that deliver solid performance at bargain prices.

The compact, lightweight SmartPage Pro can be installed in just a few minutes and is easy to operate thanks to software provided by Storm. The software includes the highly respected PhotoDeluxe image-editing program by Adobe Systems Inc. and the TextBridge OCR (optical character recognition) software from Xerox Corp. OCR software enables users to convert scanned documents into various formats for editing with word-processing software.

The Easy Photo SmartPage Pro *from Storm Technology delivers solid performance at a bargain price.*

The SmartPage Pro can be adjusted to accommodate sheets up to 8.5 by 14 inches, and its scanning head can be detached from the base for capturing images and text from books and other bound documents.

Scanned images are faithful in color and often brighter than the originals. The device's scanning speed can be frustratingly slow, however.

Overall, the SmartPage Pro is a solid choice for low-volume scanning at the rock-bottom retail price of $149, which includes a $50 rebate from Storm through Jan. 1.

The BJC-80 *from Canon Computer is a good traveling companion.*

The BJC-80, a new inkjet printer from Canon Computer Systems Inc., produces vibrant color printing from a package so light and small that it can be taken on the road as well as used in the office.

The 3-pound device measures just 11.8 by 6.2 by 2.2 inches. It can be operated on AC power or by using an optional $99 nickel-hydride-battery kit.

The photorealistic color prints produced by the BJC-80 are comparable in quality to those produced by much bulkier and more expensive color laser printers. The BJC-80 is also versatile in that it can print its water-resistant ink on plain paper, glossy photo paper, envelopes, fabrics, or clear plastic film.

This printer can double as a no-frills color scanner when the ink cartridge is replaced with an optional scanner cartridge.

To make the most of the BJC-80's printing and scanning capabilities, Canon has included the latest version of its Canon Creative graphics software, a package of graphics tools for, among other things, creating attractive and colorful content. The retail price of the BJC-80 is $299. The IS-12 scanner cartridge retails for $99. ■

BITS AND BYTES

Rolodex REX PC Companion

The REX PC Companion, marketed under the Rolodex brand name by Franklin Electronic Publishers, qualifies as an outstanding product because, of all things, it does less than its competitors.

Makers of other hand-held computers have tried to attract a following by cramming them with assorted capabilities such as information organizing, word and spreadsheet processing, and handwriting recognition.

But these products often have been too bulky, heavy, costly, and complex to catch on with the computing masses.

In contrast, Franklin engineered the REX to do just one thing and do it well: display at the touch of a few buttons up-to-date calendar information, address-book data, to-do items, and brief notes transferred to the REX from a laptop or desktop computer.

By limiting its functions, Franklin kept the REX lightweight at 1.5 ounces and incredibly small—about the size and thickness of three stacked credit cards.

The device is powered by two wristwatch batteries, which Franklin says will last about six months, and its display is sharp, bright, and easy to read. The product also appears to be very durable. The REX is shipped with a "light" yet very functional version of Starfish Software's popular Sidekick information-management software. REX owners use their laptop or desktop computers to enter information into this program, the full version of Sidekick, or several other leading information managers, including Microsoft Schedule+ and Outlook.

The REX PC Companion *by Franklin Electronic Publishers shows that less can be more.*

Laptop owners transfer the information to the REX by inserting the device into a PC Card slot (standard on today's portable computers) and running synchronization software, also provided by Franklin. Desktop owners accomplish the transfer by inserting the REX into a cradle that connects to a standard serial port and running the synchronization program. Using either method, the synchronization process typically will not take much longer than reading this description of it.

The basic REX-1, which can store 750 items, retails for $129. The high-capacity REX-3 model, which can hold 2,500 items, costs $159. The cradle costs $39. A package containing the high-capacity REX and the cradle sells for $179.

Logitech MouseMan+

The newly designed MouseMan+ by Logitech Inc. provides users with a pointing device that's both comfortable and functional. Its off-kilter shape looks odd, but it enables the mouse to fit the hand's natural contours.

The MouseMan+ has four function buttons, including a middle-of-the-mouse wheel. By default, turning the wheel has the effect of scrolling from page to page in Windows programs.

However, the wheel and the other three buttons can be programmed by users to perform not only the usual single-click function or the scrolling operation described above but also to double-click, launch or close programs, access the Windows 95 start menu, invoke the help system within Windows, and more.

The MouseMan+ retails for $59.95. NB

Bundles Too Big For Small Firms

As the government consolidates its purchases into larger contracts, small firms are being squeezed out of the bidding.

By James Worsham

PHOTO: ©LINDA STETLER

By bundling contracts, *the federal government has created contracts too big for small firms to handle, says David A. Nilson, president of a Columbia, S.C., moving company.*

David A. Nilson, president of a household-moving company in Columbia, S.C., is discovering firsthand how small firms of all types throughout the country can be affected by certain reforms in federal procurement practices.

In South Carolina, North Carolina, and Florida, the Defense Department is trying to consolidate many of its household-moving needs—involving transfers overseas and within the United States as well as shipments of various sizes—into large contracts grouped by regions.

This consolidation practice is putting the contracts far out of reach of small movers, says Nilson, whose firm, Nilson Van & Storage, a Mayflower agent, has won government moving contracts for the past 50 years. "They've created an animal that is absolutely impossible for small businesses to deal with," he says. "It eliminates a small company from bidding on these huge, huge contracts."

Contract bundling is the result of a governmentwide effort to reduce procurement paperwork and get better prices for products and services. Although there has been no estimate of federal cost savings attributable to bundling, administration officials acknowledge that bundling can leave small businesses with a smaller share of the federal-spending pie.

That view is underscored by a study conducted for the U.S. Small Business Administration (SBA) by Eagle Eye Publishers Inc., a Vienna, Va., research firm. "Fewer and larger contracts are being won by fewer and larger companies," says the study.

The study found that from Oct. 1, 1990, to Sept. 30, 1995, federal contracts worth $100,000 or more grew to 48 percent from 40 percent of all contracts, and about 7,000 small firms were pushed out of the federal marketplace. SBA officials say small business has lost even more ground since then.

From Oxygen To Construction

In South Carolina, moving companies appealed to the U.S. General Accounting Office to stop the bundling plan in their industry in that state, and implementation of the practice has been delayed until the GAO decides on the appeal, possibly by year's end.

In Oklahoma City, B&B Medical Services Inc. has been providing oxygen and respiratory services for the veterans hospital there for years. Recently, the U.S. Department of Veterans Affairs required that firms bid to supply these services for all the VA hospitals in a five-state region.

B&B's president, Bill Long, says the bundled contract was too big for his firm and many others. After they complained, the department changed its mind about bundling the contracts. A spokesman says Veterans Affairs will decide on such contracts for each hospital individually.

Elsewhere, however, bundling is under way. In a move that affected construction companies, the Army Corps of Engineers created a construction contract at Fort Leonard Wood, Mo., that was worth about $170 million instead of a group of smaller contracts worth $10 million to $60 million each for seven projects, says Rick Grebel, president of KCI Construction Co. of St. Louis.

As a result, Grebel says, most of the small Missouri construction firms that usually perform work at the base were shut out of the bidding because the contract exceeded their bonding capacity. The award went to a large Texas company.

"How many companies can bid on a $170 million job?" Grebel asks rhetorically.

Movement In Congress

After hearing pleas from small businesses and the SBA, Congress moved recently to curb bundling and help small firms retain a portion of the nearly $200 billion in federal procurement annually, ranging from services—such as household moves for transferring military personnel—to supplies for federal installations.

In the three-year SBA reauthorization passed by the Senate in late October, lawmakers included a provision that defines bundled contracts and strengthens the hand of the SBA to challenge federal agencies' decisions to combine contracts. At press time, the bill awaited House action.

Sen. Christopher S. Bond, R-Mo., chairman of the Senate Small Business Committee, says the bill "will help our efforts to be fair to small businesses by limiting contract bundling where it is unnecessary and unjustified." NB

FINANCE

SBA Gives Women A Foot In The Door

A prequalification program helps those who might have been turned down for bank loans get the expansion money they need.

By J. Tol Broome Jr.

PHOTO: ©AMIE THOMPSON

After several banks *denied a loan to Rhonda Cline's whirlpool-bath company, she found expansion money through a government prequalified-loan program.*

Rhonda Cline launched her manufacturing business—whirlpool baths and spas—on a shoestring three years ago. Demand for her products grew quickly; revenues for Aqua Life Industries in Helena, Mont., went from \$52,000 in 1994 to \$400,000 last year. But Cline's lack of expansion capital began to pose a serious threat to the company. Some customers, frustrated by delays, canceled their orders.

As a fledgling entrepreneur and single mother of two, Cline figured that her chances of securing a bank loan were slim. Then she read in the local newspaper about a pilot U.S. Small Business Administration loan program for women-owned businesses.

Cline followed up and this past February obtained an SBA-guaranteed bank loan through the Women's Prequalified Loan Program she had read about. The loan financed relocation to a larger facility, additional equipment, and supplies. And there was enough left over for working capital. Cline expects 1997 revenues for the firm—which has four full-time and two part-time employees—to be \$500,000.

The Women's Prequalified Loan Program began in 1994 in 16 SBA offices around the country. It went nationwide in October 1996 and is now offered by 55 of the SBA's 68 district offices.

From the program's inception through this past June, the SBA issued 871 prequalification letters, and 674 loans totaling \$71.6 million were closed.

Through the program, women business owners can receive SBA prequalification for a bank loan guaranteed by the agency. The guarantee means that in the event of a default, the SBA will cover most of the unpaid loan balance.

Unlike other SBA programs that guarantee bank loans, the women's program enables the borrower to get the guarantee before approaching a bank. The bank becomes involved only after the SBA has signed off. This is a big advantage for young firms because banks are more likely to approve a loan that has been prequalified by the SBA.

This story is part of a continuing series on ways for small companies to locate the financing they need to run their businesses.

"I had been turned down several times by banks due to a lack of collateral, even though my business was profitable," says Cline. "The Women's Prequalified Loan Program places less emphasis on collateral. It has been vitally important to my business that I was able to obtain one of these loans. It has helped me expand my business to a whole new level."

Sherrye Henry, assistant administrator for the SBA's Office of Women's Business Ownership in Washington, D.C., says: "This program has been received enormously well. The SBA and Congress together devised this program for women. It has worked particularly well for women with service businesses who do not have widgets to offer as collateral."

Before the program began, Henry says, a woman seeking financing was likely to be stiff-armed at the bank as soon as she walked in the door. "Most women never even got to the part about the ongoing positive history and good track record of their company," she says. While prequalification "does not ensure that the bank will make the loan," Henry adds, "it does enable most owners to get a good look at the loan request from the lender."

How The Program Works

The program focuses primarily on the credit history, character, and experience of the borrower. Consequently, there are no stated equity or collateral requirements.

The maximum loan amount is \$250,000. The SBA provides banks with guarantees of up to 80 percent on loans up to \$100,000 and up to 75 percent on loans of more than \$100,000.

To be eligible, a small business must be at least 51 percent owned, operated, and managed by women; its annual sales cannot exceed \$5 million; and it must employ no more than 100 workers.

For loans under \$100,000, the SBA requires only a one-page application from the borrower. For loans over \$100,000, the borrower must submit an expanded application, a business plan with projections, résumés on the principals, a copy of the most recent year-end business financial statement or tax return, and a personal financial statement.

Loan maturities are based on the ability of the business to repay, on the purpose of the loan proceeds, and—for loans for fixed assets—on the "useful life" of the assets, or how long they can be expected to last.

For real estate, the term can go to 25 years. Maturities of loans for other fixed assets, such as equipment and machinery, usually are limited to seven to 15 years.

For most working-capital loans, the borrower can take up to seven years to repay—although in some instances the repayment period can be as long as 10 years.

These terms compare favorably with the typical maximum terms for conventional business loans: 15 years for real estate, seven years for other fixed assets, and four years for working capital.

Interest rates may be fixed or variable and are negotiated between the borrower and the lender. The rates are subject to SBA maximums. The maximum rate for loans of $50,000 or more is prime (based on the prime rate published in *The Wall Street Journal*, which recently has been 8.5 percent) plus 2.25 percent for loans of less than seven years, and prime plus 2.75 percent for loans of seven years or more.

For loans of less than $50,000, the maximum rate can be as high as prime plus 4.75 percent.

The SBA charges guarantee and servicing fees to offset the cost of the program. These fees are paid by the lender but usually are passed along to the borrower.

When the guaranteed portion is $80,000 or less, the fee is 2 percent of the guaranteed portion. For loans with a guaranteed portion exceeding $80,000, a 3 percent guarantee fee is charged. In addition, all loans are subject to a 0.5 percent annualized servicing fee, which is applied to the outstanding balance of the SBA's guaranteed portion of the loan.

Processing fees, origination fees, application fees, points, brokerage fees, bonus points, and other such fees are prohibited.

"We can provide some assistance in the business-plan preparation, but the owner must write it."

—Jim Plum, Montana Women's Capital Fund

The Intermediary's Role

Prospective borrowers in the Women's Prequalified Loan Program start by going to a local nonprofit organization that has been designated to serve as an intermediary in the program. There are more than 60 intermediary offices in 36 states, Puerto Rico, and the District of Columbia. To locate one near you, call your state SBA office.

Intermediaries often provide their services to women business owners at no charge—although they are allowed to charge up to $500 for application and packaging costs—and help steer them through the application process. In addition to direct assistance with the prequalified-loan application process, the intermediaries offer information on microloan programs—which provide small-business loans of less than $25,000, from a variety of funding sources—contacts with sources of private funding, and bank-loan services.

Jim Plum, chief credit officer with the Montana Women's Capital Fund in Helena—one of the intermediaries—was Cline's primary contact. "Rhonda had been a [microloan] client, so we had some previous contact with her," says Plum. "We saw some good growth in her business and the potential for more growth in this area."

Plum calculated financial projections for Aqua Life Industries based on its financial history. The information reflected positive financial trends, and Plum forecast that growth would benefit the company.

"We can provide some assistance in the business-plan preparation, but the owner must write it," explains Plum. "We make suggestions for phrasing, and we help with the cash-flow projections, which can be difficult for the average business owner. But we want the client to have ownership in the finished product and to understand what it means."

Besides helping with the business plan, intermediaries are required to complete the application package for the prequalified-loan request.

A Source Of Capital For You?

The SBA's Henry says the agency will continue to work to expand services available to women in business. Among those services are the 63 Women's Business Centers operating in 36 states, Puerto Rico, and the District of Columbia.

Sometimes doubling with the intermediary offices, the business centers offer a wide range of assistance. The SBA provides funding support to private partners for the first three years of operation of each center, and Henry says the SBA's goal is to have a center in every state.

An online Women's Business Center offering information, counseling, and mentoring groups in a "chat-room" format is to be launched soon at *www.onlinewbc.org*.

Aqua Life Industries is only one of many examples of how the Women's Prequalified Loan Program and other sources are helping women-owned ventures expand. "The program definitely has helped me in expanding and improving my business," says Cline. **NB**

J. Tol Broome Jr. is a credit-risk manager with Centura Bank in Greensboro, N.C., and a free-lance business writer.

TECHNOLOGY

A Code-Red Issue In Communications

Congressional debate on encryption technology, which protects data during electronic transmission, will affect small firms.

By Tim McCollum

It's common these days for small firms to send sensitive data to their business partners and customers using various electronic delivery mechanisms, including the Internet, online services, and telephone or private data networks.

And it's certainly not unheard-of for business data to be waylaid by hackers. But business information transmitted to others can be protected from prying eyes through use of a technology called encryption.

In the simplest terms, encryption provides a secure transmission envelope for private communications such as electronic mail and financial transactions. It allows the sender to scramble data and voice signals by using a code called a digital key. The data and voice signals then can be unscrambled and read only by someone who possesses the key.

Security experts say that strong encryption—using 128-bit digital keys—can help small companies protect vital information inside and outside their businesses. Sixty percent of companies that responded to a 1995 survey conducted by a telecommunications task force of the U.S. Chamber of Commerce said they planned to use confidentiality-ensuring technologies, such as encryption, in the next five years.

This technology is also the subject of congressional debate—on whether export of encryption technology should be legal and whether law-enforcement agencies should have access to the digital keys that unscramble encrypted data.

It is illegal to export encryption technology without permission of the U.S. Department of Commerce, which approves only technology with keys no larger than 56 bits. Such keys have been broken before.

In addition, the Clinton administration has proposed a key-escrow system in which users would deposit a copy of their digital key with a government-approved third party; the key could be retrieved by law-enforcement agencies acting with a warrant.

Advocates And Critics

Export restrictions and a key-escrow system are necessary, according to the Justice Department and other law-enforcement and national-security agencies, for investigation of crimes such as drug trafficking and terrorism.

"The problem is that the bad guys abuse this [technology]," says Scott Charney, chief of the Justice Department's section on computer crime and intellectual property. "Our notion is, you put very robust encryption out there, but you also make it possible for law enforcement to get access to it when legally required."

Critics of restrictions on the export of strong encryption technology say the policy makes communications and transactions between companies less secure by sidelining the strongest available means to protect business data.

Critics add that because the policy prevents U.S. software firms from building strong encryption into software they sell overseas, market opportunities are lost to foreign firms without similar restrictions.

"We're hampered in our ability to export products," says John Murray, chief operating officer of The Internet Factory Inc. in Pleasanton, Calif. The 12-employee firm makes electronic-commerce software for World Wide Web sites. Murray says his firm nearly lost a deal with a French telecommunications company last year because of the export restrictions.

"The export requirements are particularly onerous for a small business," he says. "What we ended up doing was delivering the product without any security, and the customer had to purchase security technology from a foreign firm."

In a similar move, Sun Microsystems Inc., a Mountain View, Calif., company that develops and makes hardware and software for computer networks, announced in May that it would license encryption software from a Russian firm, Elvis+ Co., near Moscow, for use with the server software it sells to customers overseas.

PHOTO: ©LINDA SUE SCOTT

Export restrictions *on encryption technology "are particularly onerous" for small firms, says John Murray, chief operating officer of The Internet Factory, a software maker.*

In Court And In Congress

Companies such as Sun Microsystems and The Internet Factory stand to gain from an August ruling by the U.S. District Court in San Francisco that declared the export restrictions to be unconstitutional. The court has stayed its ruling, however, pending review by a federal appeals court.

Congress has been wrestling with the encryption issue this year with mixed results. Rep. Robert W. Goodlatte, R-Va., is sponsoring a bill called the SAFE Act, which would lift restrictions on the sale and use of encryption and impose stiff penalties on criminal misuse of the technology. A Senate bill sponsored by Sen. John McCain, R-Ariz., would restrict exports and require a key-escrow system for international communications. Neither bill has been scheduled for floor action. NB

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MANAGING

Getting A Grip On Your Lease

When you're renting commercial property, knowing when to negotiate and when to sign can save you money and headaches over the long run.

By Susan Hodges

After spending two years and $70,000 on improvements to his leased commercial space, Ramon Arbaiza had what he wanted: one of the most popular ethnic restaurants in Silver Spring, Md. El Gavilan's clientele came for the food and lingered to hear the live Latin music.

Then the trouble began. Arbaiza, co-owner and manager of the restaurant, walked in one day to find water on the floor—and brown stains spreading across his expensive acoustic ceiling. He called his landlord, who promised to have the leak fixed. "The roof people came, but it was weeks before they got here," says Arbaiza.

In the meantime, the roof leaked again, damaging more tiles and forcing Arbaiza to remove them, which left a hole in the ceiling. Eventually, Arbaiza installed new tiles. But five years later, the roof still leaks, and Arbaiza has lost track of the number of tiles he has replaced.

PHOTO: T. MICHAEL KEZA

In the kitchen *of his popular Latin restaurant, Ramon Arbaiza is all smiles, but the leaking roof of his leased space makes him considerably less happy.*

Because the lease says tenant furnishings—such as the acoustic tiles Arbaiza installed—are the tenant's responsibility, Arbaiza and his two co-owners are paying for the repairs. So far, they have spent about $2,000.

Doing Your Homework

Arbaiza is like many small-business owners who run successful operations but can't afford to—or decide not to—buy space of their own. That means entering into lease agreements that typically favor the landlord and can run as long as 40 pages. "The terms are simple," says David Goldberg, a Rockville, Md., attorney who specializes in representing businesses. "You either take it or leave it."

In places where affordable and attractive space is scarce, it's not surprising that many small-business owners sign first and read later. But signing without doing some homework can lead to major headaches. At worst, Goldberg says, "your business can fail during the lease term, leaving you responsible for years of lease payments even though your business no longer exists."

What are small-business owners to do? "Take your time and read every word of the lease, no matter how many would-be tenants are in line behind you," says Goldberg. Then ask for a few days to have the lease reviewed by an attorney, a real-estate agent who specializes in commercial property, and your insurance agent. All three can point out potential problems and help you negotiate a lease that's fair for both you and the landlord.

First Things First

Before you sign anything, incorporate, says Rick Riebesell, an attorney with Hall & Evans, a Denver-based law firm. When you lease in the name of your corporation, your financial liability generally is limited to your corporate assets, says Riebesell.

If you lease in your own name, "a court judgment could be entered against you if you default, and it will be entered against you personally," Riebesell explains.

Even if you incorporate, your landlord may want you to assume some personal liability, especially if your business is a start-up. But Riebesell says it's smart to refuse. Consider finding another space, he says, or try to negotiate for a trial period after which the landlord would release you from your personal guarantee.

Riebesell also suggests negotiating for an initial lease term that's as short as possible. "It's better to get a short term you can expand rather than sign on for five or 10 years," he says.

Bob Seale did exactly that. He signed a three-year lease and later extended it for another three years. Seale owns Seale & Associates, a Greenwood, Colo., firm that represents manufacturers of electronic parts.

When Seale first shopped for commercial space in 1990, he wanted a five-year lease. "The lease market was so weak that I wanted to take advantage and lock in a good rate," he explains. But the space he found in Denver offered a bevy of amenities, such as a conference room and covered parking, and the price was just $9 a square foot per year. "The landlord wouldn't go for a five-year lease, so we signed for three," says Seale.

After two years in the space, Seale asked for and got another three-year lease. "I had a feeling the market was going to improve," he says, "so I renewed early." Seale agreed to a 20 percent price increase, pushing his lease rate to nearly $11 a square foot, but that was still a reasonable price.

Susan Hodges is a free-lance writer in Takoma Park, Md.

By the time his second lease was up, Seale's market intuition had become reality, and the landlord wanted $18 a square foot. At that point, Seale says, "we decided it was time to leave Denver. It wasn't necessary for us to have a class-A building in the city anyway."

Regardless of the lease period, make sure the lease allows you to sublease. If it doesn't, you're vulnerable to Goldberg's worst-case scenario—years of lease payments even after you're no longer using the space.

"Ask for the ability to sublease, subject to a reasonable review by the landlord," suggests Riebesell. "Reasonable review" is the key negotiating point—it means that as long as your new tenant can pay the lease and operate a suitable business, the landlord must approve the sublease.

Next Things Next

Among other matters that deserve close attention are "charges for common-area maintenance," says Gary Hoagland, a business attorney at Hoagland, Longo, Moran, Dunst & Duokis in New Brunswick, N.J.

The farther north you go, the more important common-area maintenance becomes. "Interior common areas have to be heated, and you'll help pay for that," says Hoagland. You'll also pitch in part of the cost of snow removal, which can be significant. The combined costs of heating and snow removal can be a lot higher than air-conditioning costs for businesses in southern climes.

Landlords typically charge tenants for heat, water, and other utilities, but some also include a lease provision for capital expenditures, sometimes called "reserves and replacements."

"Watch for these," says Hoagland. "It means you could be expected to pay toward the eventual replacement of the furnace or [resurfacing] the parking lot."

Goldberg recommends that you agree to pay for all regular maintenance cleanings and repairs but that you negotiate on anything beyond that.

Goldberg also says you should "make sure you have good insurance." Most landlords and many states require businesses to carry liability insurance covering any injuries or losses to customers. The amount of insurance required may be negotiable.

Kevin Foley, president of PFT&K Insurance Agency in Old Bridge, N.J., tells his clients to look at insurance requirements and then call him. "The landlord may want you to have $4 million in coverage but you have $1 million," he says. "That may be enough."

Foley also suggests buying liability coverage that will pay for any damage to your property or the rest of the building from fire caused by you or your business.

If you lease in a shopping center, be prepared for additional considerations. In a new center, ask for an "exclusive"—a clause guaranteeing that space won't be rented to another business similar to yours. Also ask what will happen if the shopping center fails. "You don't want to find yourself in a mall that's only marginally occupied," says Goldberg. "Ask for a provision that says you don't have to pay rent until the center is 40 percent full."

It's important to check a shopping center's hours, since you'll be expected to be open for business at those times. Make sure the center has enough parking to meet your needs, too, and find out who will pay for finishing your leased space.

Also find out whether you'll have to renovate your storefront every five to 10 years at your own expense. Upscale malls often make this requirement. Such malls also sometimes require leases under which the business must pay a percentage of its gross income, usually over and above the rent.

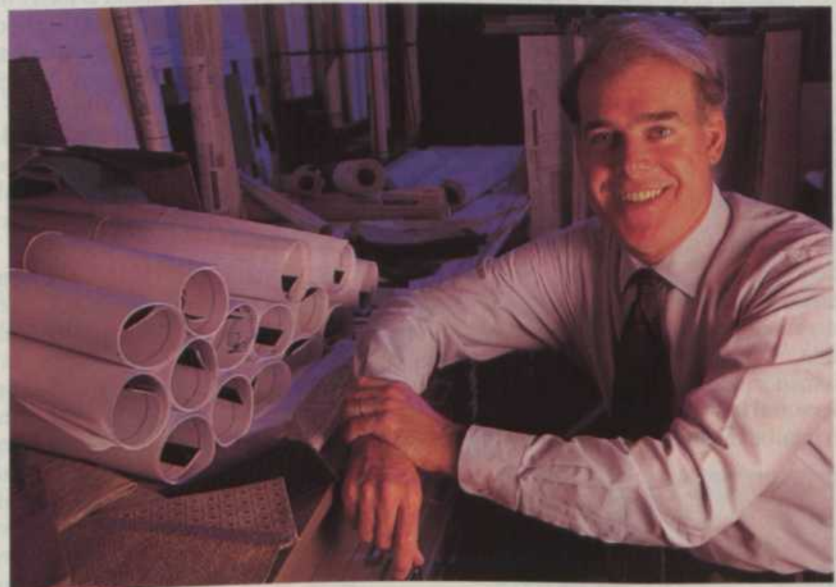


PHOTO: ©PAUL S. HOWELL

Using a real-estate agent *to negotiate lease renewals has resulted in more-favorable conditions for Greg Turner's architectural firm.*

Helping Hands

If the rigors of leasing space sound daunting, don't be discouraged. Agents and brokers who deal in commercial real estate usually can help you find a good property and negotiate a fair lease. You pay nothing for the service; commission fees are paid by the landlord.

Real-estate agents often can point out additional options. "If you're in an area with several municipalities, compare the financial incentives offered by local governments," says Dan Wilkinson, president of Wilkinson & Snowden, Inc./Colliers International, a real-estate firm in Memphis, Tenn. One city or town might levy a personal income tax on businesses while another does not, for example.

Greg Gunn, senior vice president of Cottonwood Realty Services in Salt Lake City, suggests that small-business owners use an agent who specializes in the kind of space they are seeking. "In commercial real estate, you have apartments, industrial space, office space, retail space, and land," says Gunn. In a small market, one agent might do it all. But in a medium-sized or large market, specialists usually are available.

"A specialist will be acquainted with the strong and weak parts of your market segment," says Gunn.

Greg Turner, principal of Turner & Bair, Architects, in Houston, didn't use a real-estate agent to negotiate his first lease, but he wishes he had. "I probably would've gotten a better deal," he says.

Turner has used an agent to negotiate all of his lease renewals, however. And in the 13 years he has been in his building, conditions have become more favorable. The company leases one floor of a two-story office building that Turner describes as "nice, clean, functional space, but not high-profile."

Through his real-estate agent, Turner—whose firm is the building's principal tenant—negotiated for and won the right to control the building's heating and air-conditioning settings. Turner says that was important for the comfort of his employees, who often work odd hours.

Turner also has worked with the landlord to get various improvements, which the firm pays for in installments. "I'd rather be a big fish in a small pond instead of the other way around," says Turner. "It's nice when you're important to the landlord." NB

REGULATION

When Workers Have Mental Disabilities

Federal guidelines on how discrimination law applies to employees with emotional or psychological problems may not answer all employers' questions.

By Roberta Reynes

With a large number of workers accusing their employers of discriminating against them for emotional or psychiatric impairments, a federal agency is hoping that guidelines it issued can help forestall such complaints.

More than 2,500 workers filed charges with the U.S. Equal Employment Opportunity Commission (EEOC) in each of the past two years alleging discrimination based on mental impairments. The Americans with Disabilities Act (ADA), which took effect in 1992 and applies to businesses with 15 or more employees, prohibits such discrimination.

The EEOC guidelines, issued in March, aim to help employers understand how the ADA applies to people with mental disabilities.

However, they may fall short of that goal, says Crystal Hayman Simms, who manages a statewide work-site-education program on mental illness and ADA issues for the Delaware Mental Health Association in Wilmington.

The guidelines use terms—such as schizophrenia and bipolar disorder—that are unfamiliar to many small-business owners, says Simms. Also, the most basic compliance issues remain a source of confusion for many employers, experts say.

For example, a business must provide "reasonable accommodation" to a worker with a mental disability unless doing so would cause "undue hardship" to the business, the guidelines state.

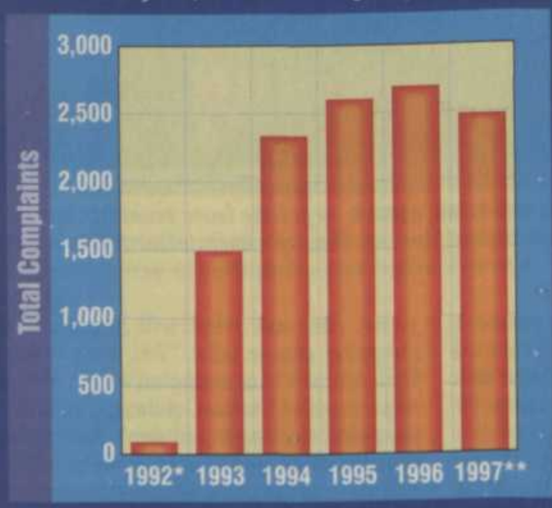
But what is a reasonable accommodation? There's no easy answer. "Almost everything under the ADA is fact-specific for a particular case," says Ellen M. Martin, who heads the employment-law practice of Patterson, Belknap, Webb & Tyler in New York City. "There's no hard-and-fast rule on what is a reasonable accommodation. It depends on the size and profitability of the company."

While employers can't close their eyes to an obvious problem, such as an employee who makes threats against others in the workplace, it's mostly the employee's responsibility to notify the employer of a disability that needs accommodation.

Your response should be guided by two facts, says Christopher Bell, a former EEOC lawyer and now managing partner with the Minneapolis office of Jackson, Lewis, Schnitzler & Krupman. "The ADA only protects people who ... have a disability and ... who also are qualified to do the job you've assigned them."

Discrimination Complaints For Emotional Impairments

Numbers of complaints filed with the EEOC by people alleging workplace discrimination because of their emotional or psychiatric disabilities. Totals are for federal fiscal years, which run through Sept. 30.



* For three months ** For 11 months

CHART: ALBERTO PACHECO

SOURCE: U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

The key, Bell says, is to focus on job requirements. Suppose someone brings in a doctor's note saying that he or she has clinical depression and can't work overtime. If your company makes holiday ornaments and it's September, somebody who can't work overtime can't do the job. The person would not have ADA protection, Bell says.

What if an employee tells you he or she suffers from stress and needs time off? Ask for documentation from a doctor. Advises Martin: "The physician should indicate the diagnosis, the accommodations that are necessary, and the limitations on the employee's ability to perform his or her job.

"There has to be a substantial impairment before the disability is protected under the ADA. Also, ask how long the condition is likely to last. Only extremely serious short-term disabilities are protected."

Many accommodations aren't costly, experts say. The change may entail time off without pay for doctor visits, putting up a partition to help the worker concentrate better, or allowing an employee on medication to work an adjusted schedule.

The EEOC guidelines contain protections for employers, too. For instance, an employer can fire someone who is disruptive, rude, and uncooperative if the employer has made it clear that working together is critical to the company's success, has documented any problems the worker created, and has warned and counseled the individual.

Also, while employers can't ask a job candidate whether he or she has a disability, they can ask about ability to perform specific job functions.

Keep in mind that common sense and compassion go a long way. Chris Adams, director of development and education with the Mental Health Association of Minnesota in Minneapolis, puts it this way: "Reasonable accommodation does not mean the business owner pays someone to slack off. It means: I, the small-business owner, am trying to do what I can so the employee can maximize his or her potential and ability to do the job."

To request the full text of the guidelines or other informational publications on discrimination in the workplace, call the Publications Distribution Center for the EEOC at 1-800-669-3362; the text of the guidelines is also available at the EEOC's site on the World Wide Web: *www.eeoc.gov*. NB

Roberta Reynes is a free-lance writer in Spencertown, N.Y.

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Trade Links Via The Internet

Here's how some small-business exporters are using technology to plug in to global markets.

By Roberta Maynard

A man in Bahrain who was surfing the Internet one day last summer happened upon a reference to Sharon Doherty's dog shampoos. The man, who owned a puppy and was searching the World Wide Web for relevant information, found the mention on a Web site set up by a dog breeder in Spain.

That chance encounter in cyberspace led to two positive outcomes for Doherty's firm, Vellus Products Inc., a Columbus, Ohio, manufacturer of pet-grooming products: The puppy owner in Bahrain contacted Vellus and became a customer, and the dog breeder in Spain became the Western European distributor for Vellus after Doherty contacted him.

PHOTO: ©JIM CALLAWAY

Using the Internet *helps Sharon Doherty, president of a pet-products company, brush up on overseas markets and her competition.*

Such is the power of electronic communication to extend the reach of small companies to markets worldwide.

"The way this [business transaction] transpired just blew me away," says Doherty, president of Vellus. She first experienced the Internet less than a year ago, and now she routinely spends up to two hours a day online, researching overseas markets and domestic and foreign competitors.

The company had revenues of less than $500,000 last year, but Doherty believes the Internet will help boost sales.

The successful conclusion of the European distribution deal also spurred Vellus to ratchet up creation of its own Web site, *www.vellus.com*, which was launched recently. "I think the Web site will help business tremendously. I have no doubt that it will pull in people from overseas," says Doherty, who has been exporting for five years. Foreign sales account for more than half of her revenues.

Across Time Zones

Just as the Internet is fast becoming a key domestic business-development tool, companies pursuing foreign markets are finding it an effective—and sometimes necessary—means of reaching business partners and customers several time zones away.

"There are graduating levels of sophistication of usage," says Lisa Kjaer, director of the U.S. Department of Commerce's Export Assistance Center in Seattle. She

Creating An Export-Friendly Site

Increased international visibility is an important benefit of having a business site on the World Wide Web. Here are some tips on creating a site that will make a good impression on people browsing the Web overseas.

These suggestions are offered by Eva Chiu, president of InfoAdvantage, a Bellevue, Wash., consulting firm that develops Web sites for other business people.

Provide enough information about your company. The portion of a Web site that provides company information is typically one of the most frequently visited areas, says Chiu. Providing as much detail as possible about your company's strengths is a good way to establish credibility, which is critical for a small business that is unknown overseas.

Make contact information prominent. Simple as this notion is, vital names and telephone or fax numbers often are buried deep within a site. Bring them to the front.

Make it clear that you export. On the first page of your Web site, tell browsers that you are an exporter (or want to be), and note whether you have a section of the site written in another language or geared to a particular foreign market.

Consider the needs of overseas customers. For example, the site for Beater Wear, another Bellevue company, which makes ski apparel and accessories, includes a size-conversion table. By referring to the table, customers outside the United States can be sure they are ordering clothing in the right size.

Don't leave site development to the technicians. Involving your marketing people can ensure that your site is consistent with the image you want to project.

says there are four steps in the natural evolution of small exporters' adoption of Internet technology:

- Getting electronic mail.
- Building an informational Web site.
- Conducting international market research electronically.
- Offering potential online customers a secure process for ordering and paying for products.

The first two steps have been implemented successfully by a 30-year-old, Compton, Calif., manufacturing company that just months ago started the ball rolling on a plan to export its aluminum door frames. "We've already found the Internet to be invaluable," says Rod J. Gutierrez, president of Modulex, Inc. "E-mail cuts down on phone expenses and, with the time differences, eliminates a lot of wasted effort trying to communicate internationally."

The company's new Web site, *www.modulex.com*, offers product information to people interested in the company's target markets of Mexico and countries on the Pacific Rim. Gutierrez hopes this exposure in cyberspace will attract distributors, customers, and even joint-venture partners to the small company, which last year had revenues of $2 million.

Similarly, Kris Olson, owner of Beater Wear in Bellevue, Wash., says his two-year-old Web site has been an important promotional tool and an effective generator of leads. Beater, which manufactures ski pants, jackets, and accessories, last year had revenues of $65,000.

Olson hopes that the Web site ultimately will help extend his selling season from five months to year-round by sparking exports to countries in the Southern Hemisphere, where the seasons are reversed from those in the Northern Hemisphere.

Dispelling the notion that small companies can't afford an Internet presence, Olson himself created Beater's site, *www.beater.com*, even though he had little computer experience.

Soon after the site was launched, it was receiving 100 visits a day. Now it averages about 2,700, and Olson expects to boost that significantly through recent arrangements with ski magazines, which will promote his Web site in return for commissions on resulting product sales.

Shopping The Web

Web-generated sales already are brisk for some companies, according to trade specialists in several states, though actual online transactions still are not occurring in great volume.

The most common pattern is for customers to tap Web sites for product and company information, then use faxes or telephones to place orders. Apparently, they do this largely because of online-security concerns. That prompted Olson last summer to offer a secure online-ordering process, which has resulted in an increase in Web orders from overseas customers.

Some nonexporting companies are finding that having a Web site can result in overseas business they hadn't even courted. Hyperspace Cowgirls, a two-year-old, New York City-based developer of children's software, has several European deals in the works even though it has no marketing effort overseas. "We don't advertise overseas at all," says Susan Shaw, president of the company, whose Web address is *www.hygirls.com*. "People just find you."

Linking The Sites

Recognizing the Internet's growing value to small exporters, export agencies in many states—Michigan, California, and Wisconsin among them—are helping companies become familiar with the Internet and with the nuts and bolts of Web-site development. Increasingly, small firms are linking their company sites to a variety of trade-related sites, including those of trade centers and banks.

This year, Washington state launched a site designed to promote its forest products, one of the state's top export priorities. The site, targeted at the Japanese market and containing information in Japanese, includes a directory of forest-product companies in the state and links to the companies' Web sites.

Since September, 20 U.S. companies that sell computer and business equipment have participated in a continuing "online trade show" through a Web site aimed at Chinese businesses. The site, funded by a public-private partnership, contains information in Chinese on the companies' products and contacts.

PHOTO: ©DOUG WILSON—BLACK STAR

Proving that small firms *can afford an Internet presence, Kris Olson used his modest knowledge of computers to create a Web site for his ski-wear company.*

Going Online For Exporting Help

Finding free information about trade and exporting has never been easier. Here are some places to start your search:

- For answers to the most frequently asked questions about trade in general and for market information on regions and countries: *www.ita.doc.gov* (the U.S. Department of Commerce's International Trade Administration).
- For information about obtaining working capital, direct loans, financing guarantees, and export insurance: *www.exim.gov* (the Export-Import Bank of the United States).
- For advice about financing exports: *www.sba.gov* (the U.S. Small Business Administration).
- To learn about technology products that require special licenses to export: *www.bxa.doc.gov* (the Bureau of Export Administration, a branch of the Commerce Department).
- To get information about thousands of trade shows and conferences around the world: *www.tscentral.com* (Trade Show Central, a Wellesley, Mass., company).

Also, check with your state's export-promotion office to learn if it has online resources and allows businesses to link to its site.

According to the U.S. Department of Commerce, a sponsor and promoter of the site, the effort is designed to help companies test the market in China without spending the thousands of dollars it would take to travel there to participate in a trade show.

In addition, the site provides 24-hour exposure rather than the limited access a company gets from an event lasting just a few days.

The future importance of the Internet as a tool for international business seems limitless. Says the Commerce Department's Kjaer: "Every business that I've talked to says that they're seeing exponential growth in the numbers of visitors they're receiving [on their Web sites] from overseas. ... The biggest concern I have for companies is that some still don't even have e-mail. They need to make that investment.

"This is growing so fast that, pretty soon, it will become as necessary a tool as the phone and the fax."

Trade aficionados predict that electronic commerce will never fully replace face-to-face meetings with international contacts or eliminate the need for small companies to seek expert counsel about the many aspects of doing business abroad.

"You will not have to meet with people overseas as often," says Daniel J. McLaughlin, deputy assistant secretary of commerce for domestic operations in the International Trade Administration. "But the electronic aspect will augment relationships and allow for entry into more markets with greater speed and ease and for less cost." Use of the Internet, he says, is the No. 1 topic in international trade.

Internet use by businesses in most foreign markets is not as widespread as it is in the United States. That gives U.S. companies an advantage in gaining access to those markets, at least for the time being, according to Eva Chiu, president of InfoAdvantage, a consulting firm in Bellevue that develops Web sites for other business people.

But as foreign companies make greater use of the Internet, that advantage will diminish as competition increases, says Chiu. "Since we have a leg up, the timing is good for us to take advantage of our ability to get into those markets," she says.

Acknowledging the speed at which technology is advancing, pet-products manufacturer Doherty concurs: "As for an Internet presence, we needed to do it yesterday." NB

Roberta Maynard is a business writer in Washington, D.C.

Software With A Worldview

Many software resources are available for people who are doing business abroad or who want to start doing so. These aids range from databases of information about financial conditions in other countries to primers on international business and software for managing trade deals.

Reference Tools

■ *Asian Sources CD-ROM*, The Asian Sources Media Group, (847) 475-1900. Despite its name, Asian Sources contains a wealth of information on products and suppliers from *all* regions of the world. This CD-ROM supplements Asian Sources' 11 industry magazines covering computers, electronics, fashion, gifts, and manufacturing products. It comes with a subscription to any of Asian Sources' magazines; subscriptions start at $60 a year.

■ *KR OnDisc Quest Economics*, Knight-Ridder Information Inc., 1-800-334-2564. This CD-ROM provides financial information and trade profiles of more than 240 countries. The information—from financial institutions, government agencies, and economic-research organizations—includes economic forecasts, exchange rates, industrial surveys, and political information. Annual subscription: $2,750.

■ *The Export Expert*, Columbia Cascade Inc., (703) 860-0866. These two CD-ROMs of information can help small firms determine if exporting is for them. The *Judging Your Export Readiness* disc can help companies determine whether they are ready to export their products, answers basic questions on exporting, and identifies potential markets. The second disc, *The Complete Guide to the Global Trade Process*, includes the above information as well as a guide to selling products overseas. Price for the first disc is $69.95; the second disc costs $169.95.

■ *The World Factbook 1996 and Handbook of International Economics 1996*, National Technical Information Service, (703) 487-4650. The CIA has compiled this CD-ROM with detailed information on 267 nations. *The World Factbook* contains profiles of countries, including geographic, economic, government, and infrastructure information. *The Handbook of International Economics* provides statistics on the economic performance of countries and regions. Price is $40 from the National Technical Information Service.

■ *World Country Analyst*, Gale Research Inc., 1-800-877-4253. This CD-ROM contains analytical information on the economies and political structures of every nation. The searchable database covers business conditions, investment climates, trade barriers, financing, and economic-development contacts. Price is $425 from Gale Research.

Doing Business

■ ExportPower Pro, EZX Corp., (281) 280-9900. This product is designed to make it easier to sell in foreign markets. It generates exporting forms such as purchase invoices, certificates of origin, shippers' export declarations, customs invoices, and packing lists. Price is $499 from EZX.

■ Tradesolutions, Integrated Trade Systems, (630) 261-9740. Tradesolutions helps serious exporters in all aspects of an export deal, including price quotes, purchase orders, and shipping. It also handles accounting functions through an accounting program bundled with the software. Price starts at $10,000 from Integrated Trade Systems.

Translation

■ Easy Translator, Transparent Language Inc., 1-800-752-1767. This handy software translates text, electronic mail, or Web pages from English to Spanish, French, or German, or from those languages into English. Retail price: $39.95

■ Power Translator, Globalink Inc., 1-800-255-5660. Power Translator translates text documents, e-mail, and Web pages from English to French, German, Italian, or Spanish, or from those languages into English. It works either as a stand-alone program or within two popular word processors, Corel WordPerfect and Microsoft Word. Retail price is $159.95.

—*Tim McCollum*

Free-Spirited Enterprise

By Michael Barrier

Creating Some Serious Fun

Given the time of year, it seems natural to write about a business whose plant floor is filled with dinosaurs and dragons in various stages of construction—even though the resemblance to Santa's workshop is only silicone-skin deep. Sally Corp. is a serious operation.

The Jacksonville, Fla., company—with 60 employees—makes animated figures for theme parks, casinos, and other places. Its audio-animatronic robots, controlled by computers and air cylinders, are similar to the kind first made famous in the Disney theme parks. Disney does such work in-house; virtually everyone else turns to Sally or one of a half dozen or so other privately held small companies.

Sally Corp. was started in Jacksonville 20 years ago by a dentist who wanted to exploit the then-burgeoning market for animated figures in pizza restaurants. (Sally was the name of the dentist's first patient.) When that market shrank, the company faltered, the dentist departed, and a new management team took over.

The company moved on to making robots for theme parks and museums—both still important to the business—but retailers are now the fastest-growing market. "What really turned the company around," says Howard W. Kelley, a former television-station executive who is Sally's president, "was becoming an international company. Now we do about 70 percent of our business abroad."

Recently, Sally was building what Kelley calls "the maestro," a $120,000 robot—"the most complicated human character we've ever built," he says—for a retail/office complex in Hong Kong. The maestro will conduct the jets of a fountain to the accompaniment of symphonic music.

But complications come with the territory. Sally's customers insisted that the maestro's face be Eurasian—that is, not identifiably Asian or Caucasian.

Earlier challenges included the roaring, smoking, fire-breathing (a 14-foot flame) dragon that Sally made for a miniature golf course in Myrtle Beach, S.C. Sally was making a replacement dragon recently because the first one went up in its own flame when, Kelley says, "someone forgot to turn off the gas."

The work can also offer challenges of a very different kind. For instance, Sally was commissioned this year by the Neiman Marcus retail chain to devise a highly realistic audio-animatronic version of President Lyndon Johnson, as part of the chain's celebration of its 75th anniversary.

Similarly, "we did Placido Domingo for a Mexico City wax museum," Kelley says, "and his mother provided the tuxedo."

Sally's showmanship is proving to be useful in another new market: trade-show exhibits, not necessarily involving animated figures. Trade shows "are getting bigger," Kelley says, "and the booths and stands are getting bigger and more expensive and more glamorous."

For now, though, robots remain the heart of the business. The people at Sally Corp. are, after all, so well-acquainted with their products that they can tell you instantly what is likely to wear out first on a robot. "Shirt collars," Kelley says.

Think about it: If you were, like the Hong Kong "maestro," moving in exactly the same way many times every day, which of *your* movable parts would likely be the first to go?

Stocking Stuffers

A couple of neat items caught our eye this year as gift possibilities:

■ The *MRI Bankers' Guide to Foreign Currency* is published quarterly; last summer's edition was the 24th. This is a paperback publication with a hardcover price: $60.

The publishers tout the book as a guide for American business people traveling internationally, but it's a lot of fun to page through even if you're not planning a trip overseas. Its 250 pages are filled with color reproductions of foreign currency, including a lot of bills no longer in use.

To order, contact the Monetary Research Institute, P.O. Box 3174, Houston, Texas 77253-3174; (713) 827-1796.

■ For that gardener you know who *really* has everything, how about a box of bugs? The Bug Store in St. Louis sells boxes of predator insects—praying mantises and the like—that will, as they say, chow down on the bad bugs.

Prices start at $29 (plus $2 shipping and handling) for a small box of predators (which will be delivered—most of them as eggs—in the spring, when gardeners need them).

Call 1-800-455-2847 or (314) 966-2287.

■ In the October issue, we mentioned a booklet on how to foil pickpockets and other such grinches. The latest edition is 24 pages, up from 20, but the price is still $3.95 for a single copy, or $6 for two. To order, write Travel Companion Exchange, P. O. Box 833, Amityville, N.Y. 11701-0833; or call (516) 454-0880 for quantity rates. NB

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Plug-in devices for personal computers are designed to simplify metered mailings for small firms—and reduce chances for fraud.

By Peter Weaver

Anyone who has lugged one of those briefcase-size mechanical meters to the post office for periodic infusions of postage credit will welcome the news: Beginning in 1998, the old mechanical machines can be replaced with a new electronic postage-metering device that plugs into a personal computer. It's smaller than a computer mouse and never has to be taken to the post office.

By early 1999, the U.S. Postal Service says, most mechanical postage meters, which have been leased or sold to many small firms and home businesses, should be phased out.

"This new system will provide all the convenience and flexibility that large mailers have—right on your desktop," says Pam Gibert, a Postal Service vice president for retail operations.

The plug-in devices will not be for everybody, however. Because they are designed for Windows-based PCs, Apple Macintosh computers will not be able to accommodate them. It is expected that before the end of the decade, private companies will develop a similar product for use with Macs.

A Fraud Deterrent

Development of the so-called desktop post office is an outgrowth of the Postal Service's efforts to prevent fraud in the use of mechanical postage meters. Without explaining how such fraud is committed, the Postal Service says it loses an estimated $100 million annually from theft of metered postage.

The new digital devices, designed to be fraud-proof, get postage-value refills online through an electronic-transfer arrangement that the business sets up with one of the companies authorized to supply the devices and the software that activates them. Postage can be paid for online with a credit card or through a special billable account. To thwart those who may attempt to steal digital postage, the online transactions will be protected by encryption—a technology for scrambling data to keep it secure during online transmission. (See "A Code-Red Issue In Communications," on Page 46.)

Once a plug-in device is loaded with digital postage, the accompanying software, upon command, tells a printer to put postage on an envelope along with the recipient's address.

"As you can imagine, security is most important because it's kind of like printing money in your office or home," says Nicole Eagan, marketing vice president of E-Stamp Corp. in Palo Alto, Calif. The firm is one of several that will market the new desktop post-office systems.

David A. Gewirtz, chairman of Component Software Corp., a Rocky Hill, N.J., firm that makes software for the devices, says the new technology is "great for a small office with a modest mail flow because you don't have to run to the post office all the time for stamps or lug your meter machine in for refills."

Options For Users

The desktop postage equipment will be on the market in some parts of the country early in 1998 and will be available nationwide later in the year. Users will have the option of purchasing the hardware and software for about $300 through office-supply and computer stores or leasing the system from an authorized vendor for $10 to $20 a month.

The software uses a Postal Service online database to ensure that addresses have the proper ZIP code, says Steve Pietz, marketing manager for Neopost, a Hayward, Calif., company that will market desktop post-office packages. The company also offers—for under $100—a separate electronic scale designed to help ensure that the correct postage is being applied.

Pitney Bowes, a Stamford, Conn., company that is the world's largest manufacturer of mailing equipment—and whose name is on many small firms' postage meters—plans to offer a desktop-PC system similar to E-Stamp's and Neopost's next year. Pitney Bowes already offers a standalone, computer-connected postage meter that is refilled electronically via modem.

While the new desktop postage-metering system will be convenient, some prospective users express concern about possible glitches. Component Software's Gewirtz, for example, wonders about envelopes that get jammed in printers or smudged with ink. "Will you have to take the crumpled and smudged paper to the post office to get a refund?" he asks. Yes, says the Postal Service, you will have to bring in "spoilage" to get your money back.

As desktop digital postage saturates the small-business market, "the colorful old stick-ons [stamps] might enjoy some sort of a comeback," says consultant Jeff Berner, author of *The Joy of Working From Home* (Berrett-Koehler, $13.95). Stick-ons can be used "as special attention-getters because they'll stand out as a personal statement in all those piles of metered imprints." NB

A simple device *plugged into a computer will take the heavy lifting out of metered postage.*

PHOTO ILLUSTRATION: GEORGIA LEIGH MCDONALD

Forging Advisers Into A Team

Unless you keep them in the loop and working together, your firm's outside professionals will be of little help.

By Sharon Nelton

Accountant. Lawyer. Insurance agent. Banker. Family-business consultant. Management consultant.

Most family businesses use a stream of outside professional advisers. Sometimes a company calls on each individually for a specific need that only a specialist can fill. Other times, a firm may need two or more of them working as a team on a complex assignment—such as estate or succession planning, shifting a company into overseas markets, or making a transition from a single leader to a team of siblings.

How can the business owner be sure the advisers are working together effectively in the best interests of the family and the company?

That's a question that family-business experts such as Joe Paul of Portland, Ore., are beginning to think more about.

One major issue, says Paul, a consultant to families in business, is the competition among the outside advisers for "most trusted adviser" status. When advisers work independently of one another and have no mandate to work together, says Paul, one of their primary concerns is the maintenance of their individual long-term relationship with the business leader. "So their ideas are often in competition with the ideas of other advisers, and they're organized around competition rather than collaboration," he says.

Sometimes advisers do jockey for position, says publisher Payne Hughes, and it indicates that the consultant is out for himself rather than for the good of the company. "That's when you've got to eliminate those types of people because they're not good for anybody," says Hughes, chairman and, with his brother Allen, co-owner of Network Communications, Inc., a Lawrenceville, Ga., firm that produces *Apartment Blue Book* and other publications.

Individuals And Teams

Hughes usually works with outside advisers on an individual basis, seeking input from them on specific issues in which they have expertise. But for estate planning, he brought together a life-insurance consultant, an estate attorney, and his accountant.

An advantage of working with different advisers is that each brings a different perspective, based on a discipline—law, accounting, and so on. But that also means that while each has developed deep knowledge of a given field, none may understand how family systems work.

PHOTO: ©JOE STEWARDSON

Seek advisers *who share your values, says Payne Hughes, right, who is co-owner of Network Communications, Inc., in Lawrenceville, Ga., with his brother Allen.*

"In order for them to be the most effective advisers possible, it really is essential for them to have this understanding," says Roxanne Johnson, assistant director of the Center for Family Enterprise at the University of St. Thomas in Minneapolis. The center has a program that provides professionals with training in family systems and encourages teamwork.

Usually, when business owners are working with multiple advisers, says Johnson, the advisers do not work together as a team. "The business will be getting different advice from all the different advisers," she says, and it may be conflicting advice.

Sometimes professionals offer their best advice only to find the business family resistant to it, or they may find themselves in the middle of a family conflict and at a loss about what to do. With training in family systems, says Johnson, they may learn to guide the family through a particular issue themselves, or they may conclude that they're in too deep and should call in another expert to help the family.

Two-Tiered Approach

Two Portland family businesses—Three Oaks Development Co., which develops commercial real estate, and Western Fluid Power, which makes hydraulic systems and distributes hydraulic and pneumatic components—found it valuable to call in Joe Paul to help them with knotty family issues before tackling some of the problems that required other outside advisers.

J. Timothy (Tim) Warren, president of Three Oaks, a $10 million company with six employees, says it was after his father, the company's founder, died unexpectedly from a heart attack last year that his family called on Paul's help. Paul helped Warren, his two brothers, his two sisters, and their spouses form a family council as a forum for addressing and sorting out family and business issues.

"Being able to really have good, open communication about where we all are as individuals has made it so that when we go to the outside advisers, we're speaking as one voice," says Warren.

Katie Keller, Western Fluid Power's president and majority owner, says her father's plans to retire stalled when he tried to turn succession planning over to a team of advisers without participating in the process. One issue he was having trouble addressing was how to put the business into the hands

of Katie and her brother, Scott, who both worked in the 50-employee company, and still be fair to their sister, who did not.

After the family did an all-day retreat with Paul last year, Keller says, "it was very clear what needed to happen. Everything fell into place."

Then it was much easier to work with the team of advisers—consisting of an attorney, an accountant, and an insurance representative. Using the advisers' expertise, Keller and her brother bought out their father's shares, and he retired last June 30.

PHOTO: ©PATRICIA CORDELL

Initiate collaboration *among your firm's advisers, says family-business consultant Joe Paul.*

Beginning With Lunch

A way to initiate collaboration is to have the advisers you want to work on a particular project get together with you for a long lunch so you can tell them what you want to do, says Paul. "Tell them that you don't want them to be working independently. Tell them you want them to be on the same page with each other and that you consider it your job to create the context for them to be able to do that."

Frequently, says family-business consultant Gerald Le Van of the Le Van Co. in Black Mountain, N.C., the outside accountant is the most regularly used and trusted adviser. "So I think that's where you start." Lawyers, he says, tend to be brought in on an as-needed basis.

"If I were running a company, I would want to make sure that my lawyer and my CPA communicated and that each was comfortable with the other and that each would advise the other when his or her input would be helpful," says Le Van.

If it costs money to get the lawyer and the accountant to communicate with each other and work together, spend the money, he advises.

Family-business owners and experts offer these suggestions for using advisers effectively and encouraging teamwork:

Never forget that you are the client and you are in control. That advice comes from consultant Le Van, who says, "These people are advisers, and they are *not* running your business. They're there to help you and not to tell you what kinds of business decisions to make."

Don't withhold vital information. A business owner may be too embarrassed to admit, for example, that there's "profound animosity between two children that he's expecting to give equal ownership to," says consultant Paul. All involved advisers need to know such things if the business owner is expecting viable succession and estate-planning assistance from them.

Make sure that all advisers get the same information. If you get conflicting advice, says Paul, it may be because you have given different information to each of the advisers. If you bring them together in a meeting, at least you can be sure they're all getting the same information. And because they're together as a team, he adds, they may ask probing questions that they might not otherwise ask.

To Learn More

Although *Working With Family Businesses* is written for advisers, the book can give family-business owners "a very interesting insight into what they could expect from their professionals," says Roxanne Johnson, assistant director of the Center for Family Enterprise at the University of St. Thomas in Minneapolis.

A team effort itself, the book was written by five family-business experts—David Bork, Dennis T. Jaffe, Sam H. Lane, Leslie Dashew, and Quentin G. Heisler. It is available for $30.95 plus shipping and handling from Jossey-Bass Publishers, 350 Sansome St., San Francisco, Calif. 94104; 1-888-378-2537.

How To Choose & Use Advisors: Getting The Best Professional Family Business Advice is a booklet by *Nation's Business* columnists Craig E. Aronoff and John L. Ward. Individual copies are available at $14.95 from Business Owner Resources, P.O. Box 4356, Marietta, Ga. 30061-4356; 1-800-551-0633.

What's more, he says, "A lot of times, people's best thinking happens in the context of dialogue."

Consider yourself a member of the team, and be involved. You may delegate leadership temporarily, and you don't necessarily have to be present at all meetings of the team, but ultimately you are the leader.

Don't discount advisers who have been with you for 20 years. "They are part of your history, and their viewpoints can be exceedingly useful," says Le Van. But he cautions that you should give them "permission" to tell you when they don't have the required expertise, and you should offer to bring in expert help, making clear that the existing relationship won't be disturbed.

At the same time, Le Van says, if your outside adviser can't serve you anymore for reasons such as age or lack of professional development, you need to recognize that. "Your primary obligation is to that business and to your family," he says, adding that once a year you must ask yourself, "Have I outgrown my advisers' capacity?"

When selecting advisers, look for people whose values are congruent with yours, urges publisher Hughes. "Making sure that your values are directly in line is probably the single most important thing," he says. Otherwise, he warns, trust may be lost. He also says that when you're putting different consultants together, it's important that they have shared values as well.

You need to "personally connect very well with [your advisers] and feel very comfortable" with them, says manufacturing executive Keller, because you will go through a lot with them and you will have to ask questions that may seem dumb. You don't want to feel intimidated.

It helps when your advisers know and respect one another, she adds; it precludes their disparaging one another's work.

"Find advisers who can listen," says Tim Warren. You need people in whom you can confide, he says. He also suggests looking for advisers who will be available for the long term "so there's a good continuity."

Says Paul: "I would be looking for differences in the skills and differences in the perspectives and differences in the experiences of people to make that team." You might even ask a consultant to help you pull together advisers for a particular problem, he suggests, adding: "It's sort of like recruiting for a professional basketball team."

Case Study: When Values Conflict

At first, Mark O'Brien was puzzled when a date told him: "You're too nice." But now he thinks she might be right.

Mark runs FrameCo, a picture-frame manufacturer that was acquired 10 years ago to support PrintPro, the O'Brien family's main business of photographic-print production. FrameCo seems to have been losing money for several years. Mark believes that the losses are on paper only and that the facility has potential, but other family members and the company's bankers are convinced otherwise.

With the family contemplating the sale of "his" division, Mark is struggling over the fact that the people he oversees could lose their jobs.

Mark, 29, joined FrameCo after a few years in sales with another firm. He is a "people person"—bright, warm, affable, and highly principled, but also vulnerable. FrameCo's key employees know about the company's situation and have been asked to stay on but with no guarantees that they would have positions with a new owner.

Mark has been offered a job by his father at PrintPro and sees that the sale or closing of FrameCo may be in his own best financial interest. Still, he argues, "How can I accept a new position for myself with PrintPro, knowing that most of my key people may soon be unemployed? What does that say about the values of a family business?"

Sometimes Mark wonders if he is too nice and if his sensitivity to others really is a weakness. "If I tell my people to start looking for other jobs now, they might leave before a sale is made and we'll have no labor force," he observes. "If I say nothing and they are fired, they're up a creek. Either way, isn't this a lose-lose situation?"

ILLUSTRATION: TROY THOMAS

Response 1

Affect The Outcome

Time out, Mark! This is not your decision alone. You have a fiduciary responsibility to FrameCo's board and shareholders. It would violate that responsibility to do anything unilaterally that might inhibit a sale. Since the sale is still being contemplated, perhaps you can influence the outcome.

If you can prove that the losses "are on paper only" and that FrameCo really is profitable, then do so. Often, pricing and profit margins between related companies get obscured. Outside analysis of costs and pricing between FrameCo and PrintPro should determine if your hunch is right. If so, then FrameCo could be saved, and you and your team will have proven yourselves.

If you are wrong, a sale could be structured to include employment contracts for key employees—possibly including you—during the transition. Such contracts are usually in the best interests of all parties and are often a condition of a purchase agreement. The buyer preserves a management team and labor force while the seller maintains a viable business during negotiations, in addition to honoring the family's values. Employees get assurance of continued employment, or at least the financial security of a contract buy-out if their employment is terminated.

Nice guys don't have to finish last. You can convert the circumstances to win-win by restructuring the situation to serve everyone's best interest. Concurrently, you can prepare for your future with a positive attitude created by handling a difficult situation well. In so doing, you can be true to your family, employer, employees, and—what's most important—true to yourself.

PHOTO: OSANTA FABIO—BLACK STAR

Richard M. Segal, chair of the Family Business Council of Southeast Michigan, an organization of family firms in Southfield, Mich.

Response 2

Reframe The Problem

Mark is facing a classic dilemma of family-business owners. Sometimes they find that a family value such as "compassionate caring" seems to conflict with marketplace values such as "survival" and "profit maximization."

Mark needs to reframe the problem as one of clarifying values. It would be helpful for him to understand his own values more fully and then develop a way of making decisions when those values appear to conflict. Mark might be "nice," but "nice" is not a useful category for making decisions. He must break "nice" down to values such as honesty, fairness, and respectfulness, to name just a few.

Even family businesses have to operate within a marketplace where values such as survival and profitability depend upon viable debt-to-equity ratios, market share, and sound, long-range management. One would hope that Mark's family will make its final decision on closing FrameCo through a process that deals honestly with factual information, that respects Mark's opinions, and that treats the jeopardized stakeholders fairly.

Still, the family must make a fundamental decision regarding the ongoing viability of the business. Mark seems to be tied up in knots because he is thinking about this process in reverse order. He is also hamstrung because he is thinking only in either-or solutions.

Honest communication with employees could include a severance agreement that protects employees and the employer with a variety of scenarios. Mark's perceived strength as a "people person" can then embody the values of a family business by the compassionate manner in which decisions are made and executed.

John G. Fast, an ethicist at Conrad Grebel College and director of The Centre for Family Business at the University of Waterloo, Waterloo, Ontario.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Paul I. Karofsky, executive director of the Northeastern University Center for Family Business in Dedham, Mass. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute.

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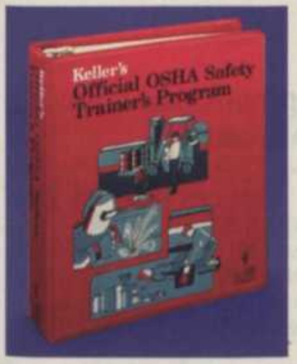

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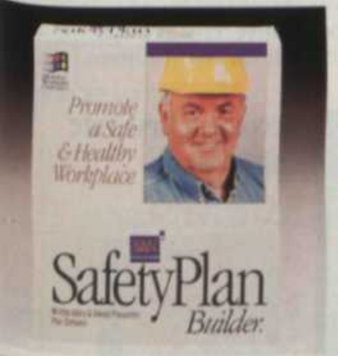

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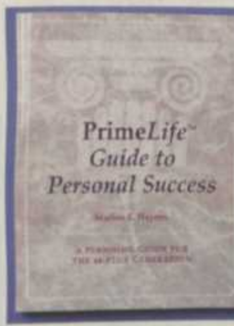

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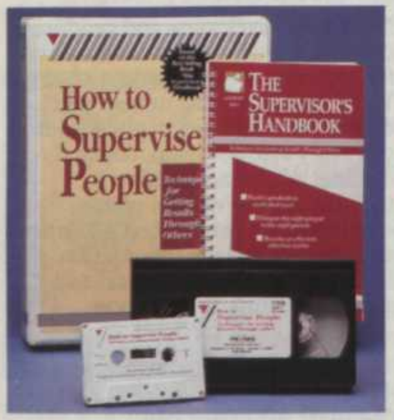

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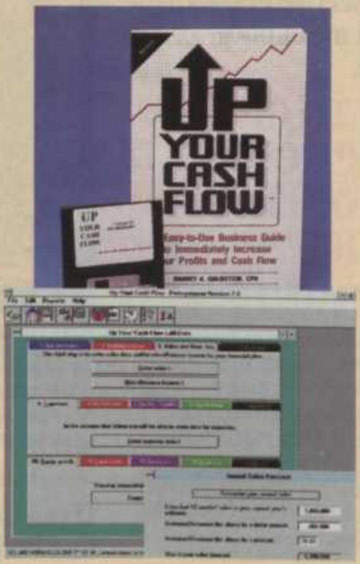

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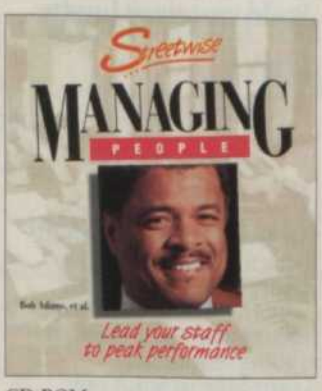

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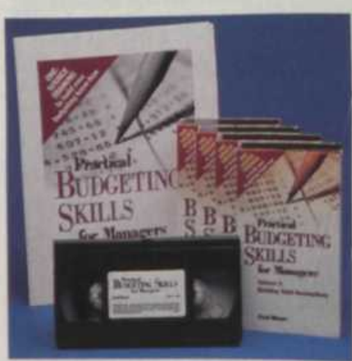

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October Poll Results

Readers' Views

Mixed Mail

Respondents to a recent *Nation's Business* poll are willing to accept some rate increases for the U.S. Postal Service—but not for the first-class stamp.

Readers who answered the Where I Stand poll in the October issue overwhelmingly opposed a 1-cent rate increase for first-class mail but supported small increases for Express Mail (next-day delivery) and Priority Mail (two to three days).

The Postal Service is seeking to raise the cost of the first-class stamp from 32 cents to 33 cents. The Postal Rate Commission, which makes recommendations to the Postal Service on proposals for rate increases, is expected to act by next spring.

In the poll, slight majorities of respondents indicated that they believed the Postal Service was delivering mail to them and others "in a timely fashion."

Three out of four respondents felt that the Postal Service was not doing an acceptable job of holding down its operating costs, and nearly two-thirds said that the Postal Service, now a government-sponsored corporation, should be fully privatized.

Here are the complete results of the poll:

Questions And Answers

Do you favor the proposed 1-cent increase in the first-class stamp, from 32 cents to 33 cents?

Yes	19%
No	81

Do you think the Postal Service is doing an acceptable job of holding down its operating costs?

Yes	25%
No	75

Do you think the mail you receive via the Postal Service is delivered in a timely fashion?

Yes	54%
No	46

Do you think the mail you send to customers via the Postal Service is delivered in a timely fashion?

Yes	52%
No	48

Would you favor small rate increases for Express Mail (next-day delivery) and Priority Mail (two to three days) to help the Postal Service avoid a deficit?

Yes	58%
No	42

Should the Postal Service remain a government-sponsored corporation, should it be fully privatized, or should it be restored to the status of a government agency?

Keep it government-sponsored	27%
Privatize it fully	64
Restore it to government-agency status	9

Where I Stand

Internal Revenue Service

On The IRS

The Internal Revenue Service, part of the Treasury Department, has come under increasing attack recently for alleged abuses and mistreatment of taxpayers. An advisory commission recommended that the agency be overhauled and managed by an independent board. President Clinton and congressional leaders have agreed that some IRS reforms are necessary. These questions seek your views on the IRS.

Results of this poll will be published in the February issue of *Nation's Business* and will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636.

1 Do you think the IRS is taxpayer-friendly?

1. Yes
2. No

2 Have you ever been treated unfairly or abused by IRS agents?

1. Yes
2. No

3 What has been your experience in seeking assistance from the IRS? (Check more than one if applicable.)

1. The IRS proved helpful
2. Could not get through by telephone
3. Received no response to a query
4. Got bad advice
5. Have never tried to contact the IRS

4 Has your company's tax return ever been audited by the IRS?

1. Yes
2. No

5 Do you believe that as a taxpayer you could challenge an IRS ruling effectively through administrative appeals or in court?

1. Yes
2. No

6 Do you think you could file your tax return electronically by 2007, as the advisory commission envisions for 80 percent of all taxpayers?

1. Already file electronically and plan to continue doing so
2. Do not file electronically but could do so
3. Will not be able to file electronically

Send Your Response Today!

Making It

Growing businesses share their experiences in creating and marketing new products and services.

Elegant Simplicity

By Tim McCollum

Like many young brides-to-be, Amsale Aberra wanted the perfect dress for her wedding. But as she made the rounds of New York's bridal boutiques, she grew dissatisfied with the elaborate, ornamental gowns that were in fashion.

It was the 1980s, and Aberra, who was a design assistant at a New York City fashion house and had always made her own clothes, knew what she wanted: a simpler, more elegant gown. So in the weeks before her wedding, she decided to design and make it herself.

Aberra's experience made her realize that there could be a market for the classic-style gowns she liked. "I kept thinking, 'What about women who are in the same boat as me [but] who can't make their own dress?'" she says.

In 1986, she and her husband, Neil Brown, placed an ad in *Bride's* magazine, offering custom-made gowns; she provided only her name, phone number, and a picture of her wedding gown. "We wanted our dresses to be classic but modern, which is a very fine line to walk," says Aberra.

Soon after, her phone started ringing. Then her designs began to attract the attention of fashion editors and retail buyers.

In the 11 years since, Aberra's design firm, Amsale, has become one of the leading bridal-wear companies. Her privately owned company's sales are growing an average of 25 percent a year, says Aberra, who declines to disclose revenue figures.

Gowns made by Amsale have been worn by, among others, Katherine Gershman, wife of Ted Kennedy Jr.; Mpho Tutu, daughter of Bishop Desmond Tutu; and Joanie Zeck, wife of "NYPD Blue" star Dennis Franz. Amsale recently opened a boutique on Manhattan's tony Madison Avenue.

Aberra has come a long way since she arrived in the United States in 1973 from her native Ethiopia to attend Green Mountain Junior College in Vermont. Four months after she arrived, Communists overthrew Ethiopian Emperor Haile Selassie and imprisoned Aberra's father, who was a high government official.

Suddenly cut off from her family and without money, Aberra moved to Boston, which has a sizable Ethiopian community. She enrolled at Boston State College and worked full time as a waitress and at other jobs to pay her way through school. She earned a degree in political science in 1981.

After college, she enrolled in New York's Fashion Institute of Technology. Upon receiving an associate degree in fashion design in 1982, she worked as an assistant to designer Harve Bernard and learned the fashion business.

Striking out on her own, Aberra set up shop in her loft apartment in Manhattan's fashion district, working with a part-time seamstress.

As word of her designs spread, buyers for retailers such as Neiman Marcus and Saks Fifth Avenue offered to sell her gowns in their stores throughout the country. Aberra moved her operation to larger quarters in the same building; she now employs 40.

Amsale's gowns, though sold in retail stores, are made to order. A customer selects

PHOTO: ©EDWARD SANTALONE

By design, *Amsale Aberra specializes in classic-style gowns and has made her 11-year-old firm, Amsale, a leader in the bridal-wear industry.*

a gown from samples in a store, which takes measurements and places the order. Amsale then makes and ships the gown to the store, where adjustments are made. Gowns cost $2,000 to $4,000.

Aberra says the service that the retail stores provide is crucial to Amsale's success because of their direct contact with the gown buyers. To control the quality of that service, Aberra allows only two or three stores in any city to sell her gowns. "I know it sounds arrogant, but we pretty much have to be selective," she says. "The service is important. We have to make sure our stores can really serve our customers."

Moreover, Aberra has tried to manage Amsale's growth carefully so that she can retain control over gown design, quality, and distribution. She also decided against taking on outside investors, who she feared would want her to expand the company too quickly or into other lines of clothing.

"You need to grow, but it's hard to control the quality of your designs if you grow too much or too fast," Aberra says.

Yet Amsale is beginning to build upon its bridal-wear success. This past fall, Aberra brought out her first line of evening wear, designed for formal occasions such as weddings, society functions, and award ceremonies. The designs follow the style Aberra set with her wedding gowns, and she intends to market them with the same care and patience. ■

Bring The Children

By Steve Bates

The woman who approached Diane Lyons was desperate. She had come to New Orleans for a convention, and she had just learned that she couldn't drag her two young children to one crucial session. Lyons, who arranged tours for convention-goers in the Crescent City, said she would take care of them. Somehow.

Lyons persuaded a tour-bus driver and a tour guide to bend their rules and take the kids on a tour that is normally off-limits to unaccompanied minors. But something about the anguish in that mother's voice stuck with her.

Lyons recalled feeling similarly torn several years earlier when she was preparing to go to San Francisco for a business meeting and decided that she just had to take along her family to share in the experience. Most of all, Lyons sensed a huge unmet need in the convention and meeting business—providing child care for families traveling together.

"I approached some meeting planners," says Lyons. "I said, 'Am I seeing something?'" The liability, she was told, would be enormous. Yet, she reasoned, so was the potential upside. Still, if it was such a great idea, she recalls thinking, "How come someone else isn't doing this? " Eventually, "I took the leap."

Her company, Accent on Children's Arrangements, was started in 1990 with one employee and one promise: child care meeting or exceeding the most stringent standards around. To supplement her small permanent staff, she lined up workers in the cities where Accent would provide the child care. Her motto: "Have toys, will travel."

Her biggest initial hurdle was proving the need for her service. She told convention planners for potential client organizations, in effect: Offer the service to your members, and see how many sign up for it.

PHOTO: T. MICHAEL KEZA

Taking care *of youngsters who accompany parents on business trips has been a rewarding enterprise for onetime tour arranger Diane Lyons.*

In the first year, Accent got only a smattering of jobs and about $80,000 in revenue. But the next year, she landed a mix of repeat business and new clients—in part based on word of mouth.

The business has grown steadily, and Lyons expects revenues of about $1 million this year. Copycats abound.

"Lawyers and others started telling me, 'What a great idea. Let's franchise it,'" says Lyons, 47. She refused, saying she would not be able to guarantee that the toughest standards would be met unless she and her top staff members were on site throughout the convention.

With satellite offices in Chicago, San Francisco, and Orlando, Fla., Lyons now has 10 full-time employees and nearly 400 part-time workers around the country. Preparing to descend on a convention requires extensive planning, almost like a military operation.

For the huge Digestive Disease Week convention in Washington, D.C., in May, for example, Lyons brought in multilingual workers to deal with the many children of foreign families. In a suite of rooms in the Renaissance Washington Hotel, Lyons and her helpers segregated children by age groups, staffing the youngest group with one adult per child.

To keep up with the frantic pace of child care, the staff forgoes preparing meals and relies on room service instead. When parents drop off their children, they are photographed; only adults in those photos may retrieve a child. Accent typically charges $8 to $12 an hour per child.

Lyons loves travel and children, but Accent is no substitute for her own family. She got the blessings of her husband, John, a banker, and her two sons before entering the business. Last Mother's Day, she stayed home with them rather than work an out-of-town convention.

Lyons says Accent has lost a few client organizations because too few of their members planned to bring children. But she adds with pride: "We have never lost clients because of bad service." ■

MAKING IT

'Nobody Calls Me Mister'

By Sharon Nelton

Walter E. Blessey Jr. comes across as friendly, concerned, and decent. But he's no softy. His gentlemanly manner belies a core of toughness and determination.

Blessey, 53, owns Blessey Marine Service, Inc., a tug and barge operator based in Harahan, La., outside New Orleans. His barges carry asphalt, oil, gasoline, and petrochemicals for clients such as Mobil, Ashland, and Marathon, sailing from Texas to Florida and up the Mississippi and Ohio rivers and other waterways.

He cares deeply about the environment, about safety, about good customer service, and about his employees. It's not uncommon for him to have lunch on his boats or just ride along to develop and maintain good relationships with the captains and crews.

He says they tell him, "The company I used to work for, the only time the boss man came out was to fire somebody, chew somebody out, and leave. They never came out and had lunch with us, spent the night on the boat, or said, 'Hey, guys, you're doing a great job. The boat looks great. Appreciate what you do.'"

To his employees, Walter Blessey is "Walter," he says. "I'm not 'Mister.' Nobody calls me Mister."

Such informality is part of his genuinely earned nice-guy image. On the other hand, probably no one stands more firmly behind his captains' right to make the judgment call on when it's too windy, too foggy, or otherwise unsafe to proceed. After one customer kept screaming at a captain, via radio, to proceed despite high seas, says Blessey, "we finally told them we wouldn't do business with them anymore."

Years ago, Blessey learned the oil-trading and -transportation business when he worked for Middle South Utilities, now Entergy Corp., buying oil for its plants in four states. Looking for an opportunity to "control my own destiny," he says, he left the utility business in 1973 and started and managed an oil-trading company for a group of backers for the next five years.

He used his savings to go out on his own in 1978, starting Blessey Enterprises, Inc. At first he concentrated on oil trading, but he began diversifying into barges, tugboats (called simply "boats" in the industry), and real estate.

Initially, he chartered the vessels to others, hoping someday to become an operator, as he is now. By 1983, the marine business had four boats and 31 barges. But the collapse of the oil industry that year threw Blessey's industry—and the oil states—into what he views as a five-year depression.

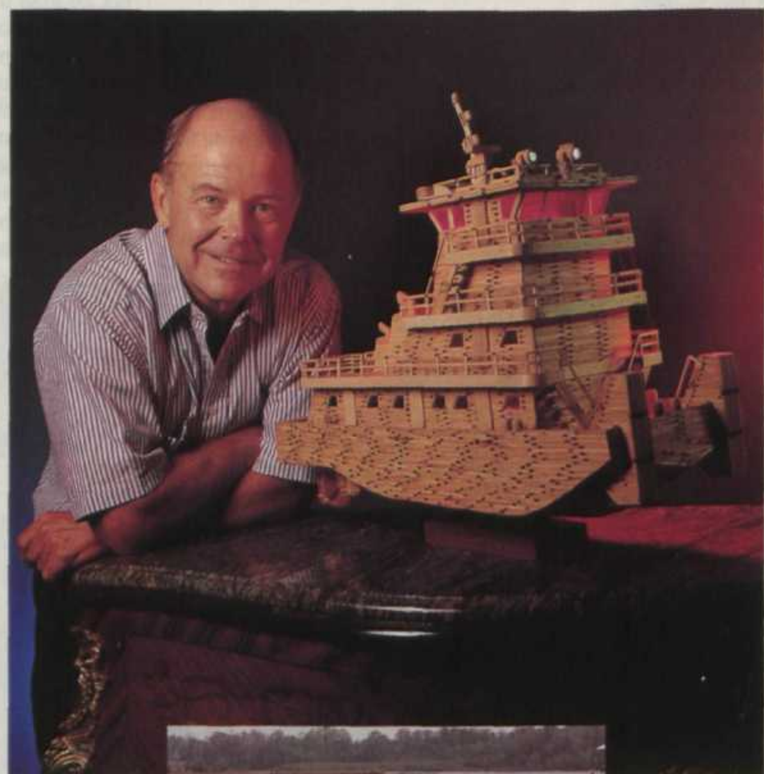

PHOTO: ©JACKSON HILL

PHOTO: ©BOB SHEA

Concern for employees *is a hallmark of barge operator Walter E. Blessey Jr.*

Blessey also had to endure lengthy litigation that he initiated. An employee of his bank had repossessed another company's barges and then arranged for them to be put to use, generating revenue for the bank. Unbeknownst to the bank, however, the employee, whose arrangement undercut a deal Blessey had made with a customer, had acted with information that had been supplied by Blessey—a clear violation of fiduciary responsibility to Blessey. Blessey fought back.

The nearly five years of litigation proved to be a blessing, says Blessey, "because I got a nice settlement, and I'm a lot tougher as a businessman. I'm a lot more sure I can survive, sure I can prevail, sure that if I'm right, I'm going to go to the mat, no matter what it takes."

By the late 1980s, with the settlement in his pocket and the upturn in the economy, Blessey was well on his way again. Today, the 180-employee company owns 43 barges and 17 boats and does $25 million to $30 million a year in business.

From the company's beginning, Blessey has used only double-hull barges, which reduce the risk of oil or chemical spills. Such vessels have two "skins" separated by about 2 feet of air. If there's an accident, chances are that only the outer hull will be pierced and no contaminant will pollute the waterways.

Blessey's concern for the environment is a pricey one. Double-hull barges cost about 70 percent more than their single-hull counterparts. A petrochemical barge with vapor-recovery systems can cost $1.6 million. Still, Blessey must compete on price. Customers often don't seem to care that his barges are less likely to spill, Blessey says; they just want to see a lower price.

Eight years ago, continuing to diversify, Blessey acquired a car dealership, Crescent City Motors, and several years later he started another dealership. This year, he bought five dealerships from Tom Benson, owner of the New Orleans Saints football team. The dealerships together bring in more than $250 million a year.

Blessey believes in creating a corporate culture that establishes the principles that everyone will follow. He speaks of a certain captain who treats deckhands not as "scumbags" but as people with dignity.

He recalls riding with the captain off Florida. The captain would say, "George, when you get a chance, could you please check the engine oil level? Thank you."

It's so easy to treat people that way instead of yelling at them, Blessey says. It is "just so much better a way to live." NB

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Experts answer our readers' questions about starting and running their businesses.

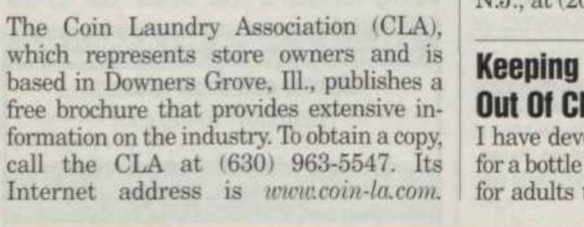
By Stephen Blakely

GETTING STARTED

Bringing In The Laundry

I'm interested in setting up a self-service coin-operated laundry. Where can I find out about profitability, environmental requirements, and other matters?
B.K., Bristol, Conn.

The Coin Laundry Association (CLA), which represents store owners and is based in Downers Grove, Ill., publishes a free brochure that provides extensive information on the industry. To obtain a copy, call the CLA at (630) 963-5547. Its Internet address is *www.coin-la.com.*



ILLUSTRATIONS: MARTHA VAUGHAN

Association membership costs $175 annually for an individual; the fee for a company depends on its size.

The nearly 35,000 self-serve coin laundry stores (also called laundromats and coin-op laundries) in the United States typically range in market value from $50,000 to $1 million, generate cash flow of $15,000 to $200,000 a year, and usually are run by individual owner-operators, according to the CLA. The association describes the stores as "unique small businesses in that they have no inventory or receivables and [few] traditional employees." Relatively few coin laundries employ attendants.

The industry's primary market consists of an estimated 89 million people who live in rental housing. "Stores seem to perform exceptionally well in predominantly renter-occupied, densely populated areas," the CLA's brochure says.

The industry also is somewhat countercyclical in that its market expands during recessions because home ownership decreases and "more people are unable to afford to repair, replace, or purchase new washers and dryers," the CLA says.

For information on manufacturers and distributors of commercial laundry and dry-cleaning machinery, call the Textile Care Allied Trades Association in Fairfield, N.J., at (201) 244-1790.

Keeping Medicine Out Of Children's Hands

I have developed a unique, low-cost design for a bottle that would be childproof yet easy for adults to open; it could be used for dispensing prescription drugs and other items. Where can I obtain the necessary information to start up?
V.M., Montville, N.J.

The U.S. Patent and Trademark Office in Arlington, Va., (1-800-786-9199) has extensive information available on its Internet site *(www.uspto.gov)* about the process and requirements for patenting an invention. It's a complicated procedure that can take three years or longer, and experts recommend that you contact a patent attorney in your area. Last year the patent office fielded more than 236,000 patent applications and more than 200,000 trademark applications.

Another information source you could find useful is the Institute of Packaging Professionals in Herndon, Va. The institute has committees that focus on drug, pharmaceutical, and chemical packaging, and it runs seminars on those subjects. It also runs PACK-EXPO, a biennial trade show. For more information, call 1-800-432-4085, or check the organization's Internet site at *www.packinfo-world.org.* Individual membership in the group costs $195 a year.

Bill Pflaum, the institute's executive director, notes that childproof safety caps are regulated by the U.S. Food and Drug Administration and that "it's a very competitive and very crowded sector." He says the safety cap itself "is a very small part" of the overall packaging product.

The best way to market such a product, Pflaum says, is to contact container manufacturers or pharmaceutical companies, which can be located through the institute. Success in this sector takes "very targeted" marketing, he adds.

Companies involved in so-called unit-dose packaging of medicine or chemicals are represented by the Healthcare Compliance Packaging Council in Washington, D.C.; call (202) 828-2328 for more information.

Getting The Last Word On Clothing With A Message

I'm interested in putting a particular phrase or slogan on T-shirts, sweat shirts, or caps. Where can I look to make certain the phrase is not being used, and how can I make sure that no one else uses it?
M.P., Knoxville, Tenn.

The Copyright Office in the Library of Congress in Washington, D.C., handles these kinds of issues. To speak to a copyright-information specialist, call (202) 707-3000. The office's Internet site is *www.lcweb.loc.gov/copyright.*

Federal copyright protection is, according to the law, for "original works of authorship." Skip Strobel, a Copyright Office specialist, notes that the law specifically excludes coverage of titles, names, short phrases, slogans, and familiar symbols or designs, which likely makes it difficult to protect a slogan. For example, Strobel says, "you would not be able to copyright 'Today is the first day of the rest of your life.'"

But Strobel adds that trademark protec-

HOW TO ASK

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tion is possible for unique corporate-related phrases or slogans such as those used by some professional sports teams.

Trademarks have to be registered and periodically renewed with the U.S. Patent and Trademark Office in Arlington, Va.; call 1-800-786-9199 for more information, or visit the office's Internet site at *www.uspto.gov.*

In The Market For Cool Customers

We plan to open a wholesale-retail ice cream store. Where can we go for more information, and how can we find financing?
S.S., Avondale Estates, Ga.

The National Soft Serve and Fast Food Association in Waynesboro, Pa., represents several hundred independently owned ice cream operations nationwide. The organization's annual meeting offers sessions devoted to helping start-up ice cream businesses and lining up the necessary financing; call 1-800-535-7748 for more information.

Chauncey Blumbaugh, executive director of the association, says the health-food craze that pumped up sales of frozen yogurt in the early 1990s appears to have leveled off. Consumption of rich, calorie-soaked "premium" types of ice cream is on the rise, he says. Sales data also suggest that chocolate has overtaken strawberry as the nation's No. 2 flavor; vanilla remains king of the cone. (The International Dairy Foods Association, based in Washington, D.C., reports that U.S. ice cream sales, growing every year, hit $10.7 billion in 1995.)

The three key issues in the ice cream business, Blumbaugh says, are location, menu, and labor availability. The location should be a busy place but not one with so much traffic that drive-by customers can't stop. The menu should offer other foods to help carry the business through the winter, when ice cream sales typically fall off. And there should be a sufficient labor pool; young and retired workers are most common in ice cream retailing and can be drawn away from fast-food competitors with wages a bit above minimum.

"Help is hard to get," Blumbaugh says. "A small business cannot afford to pay some of the wages and benefits that bigger companies do."

Blumbaugh's organization plans to change its name in January to the National Frozen Dessert and Fast Food Association to reflect its membership's growing interest in "hard" ice cream, frozen yogurt, and other such desserts. Membership fees start at $75 a year.

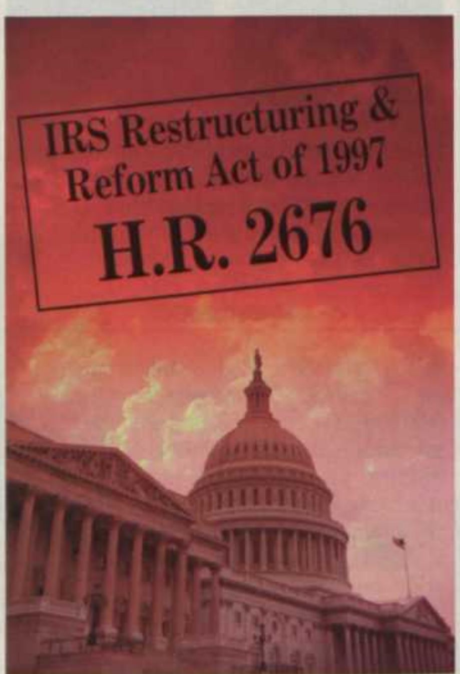
Other sources of information for ice cream start-ups include the Philadelphia-based International Association of Ice Cream Vendors, which focuses on safety issues (215-564-3484; membership is $300 a year), and the National Restaurant Association in Washington (202-331-5900; membership fees vary). NB

Editorial

An Excellent Opportunity To Reform The IRS

Internal Revenue Service abuse of taxpayers, documented recently before the Senate Finance Committee, alerted the American public to a situation that has long been grimly familiar to small businesses.

Many such companies not only have struggled for decades with the Byzantine complexity and demands of the tax system but also have suffered from the debilitating impact it can have on struggling firms and from the IRS enforcement tactics that sustain that system.



Business has long pressed for reforms that would bring simplicity and fairness to the way the government raises revenue. Prospects that these goals will be achieved have been increased significantly by two factors on the national political scene.

One is a congressional majority receptive to such change. The other is the overwhelming public support for reform that congressional hearings and follow-up publicity have generated for overhaul of the IRS itself. Proposals to do this are embodied in the Internal Revenue Service Restructuring and Reform Act of 1997 (H.R. 2676), which the House of Representatives approved Nov. 5 on a 426-4 vote. This broad measure covers management of the IRS, taxpayer rights, and congressional oversight to ensure that abuses do not recur.

Major provisions would:

- Create a board that would oversee the IRS's administration, management, conduct, and direction. Eight of its 11 members would be private citizens. The others would be the secretary of the Treasury, the IRS commissioner, and an IRS employee representative.
- Take steps to bring the proportion of tax returns filed electronically to 80 percent over the next decade.
- Shift from the taxpayer to the IRS the burden of proof on factual issues in disputes that reach the courts. The provision would apply to individuals, partnerships, and corporations with net worth of $7 million or less. To shift the burden of proof to the agency, the taxpayer would be expected to cooperate with reasonable IRS requests to examine books, records, witnesses, and documents within the taxpayer's control.
- Allow taxpayers to sue the IRS for up to $100,000 in civil damages when an IRS officer or employee has negligently disregarded laws or regulations in connection with the collection of federal taxes.
- Enable taxpayers to make greater use of existing provisions entitling them to reimbursement for attorneys' fees and other costs when they prevail against the IRS.
- Reduce from 25 percent to 9.5 percent the maximum interest on unpaid taxes for taxpayers who have agreed to make installment payments.
- Require that the Joint Committee on Taxation analyze all tax legislation as it is submitted and identify provisions that would complicate or simplify the tax laws significantly.
- Require that a joint congressional panel representing the tax, appropriations, and government-oversight committees hold two annual hearings on IRS progress toward reform.

The Senate is expected to hold more hearings on the IRS and to act on legislation early next year.

The general theme of the House measure reflects goals that business has long fought for—fairness, taxpayer rights, simplification, improved management and efficiency at the IRS, and much greater accountability by that agency to Congress and to the public. (To express your views on the IRS, see Where I Stand, Page 67.)

Even President Clinton, who initially fought many of the key proposals for overhauling the IRS, recognized the overwhelming degree of public support behind the move for change. He is now committed to signing a reform bill.

Overhaul of the management, administration, and operation of the present income-tax-collection system is a crucial goal that must be achieved. Taxpayers—businesses and individuals—will settle for no less. NB

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U.S. Chamber of Commerce

U.S. Trade Boosted

U.S. Treasury Secretary Robert E. Rubin, at dais, U.S. Chamber President and CEO Thomas J. Donohue, and Secretary of State Madeleine K. Albright urged swift action on legislation to grant the president fast-track trade-negotiating authority at a rally in late October at the Chamber's headquarters in Washington.

PHOTO: T. MICHAEL REZA

The U.S. Chamber of Commerce was exerting an all-out effort at press time to persuade the House to grant the president fast-track trade-negotiating authority before adjourning for the year.

The Chamber views fast-track authority for the president as vital to creating trade opportunities for its members and to U.S. economic growth.

Chamber lobbyists blanketed Capitol

Continued On Page 14A

■ Regulations

Cost-Benefit Measure Is Renewed

The U.S. Chamber of Commerce helped win renewal of a requirement that the Clinton administration estimate and report to Congress the cumulative annual costs and benefits of government regulations.

The measure requires that the White House Office of Management and Budget analyze the direct and indirect impact of federal rules on the private sector and on state and local governments.

The requirement was an amendment to the fiscal 1998 Treasury, Postal Service and General Government appropriations bill enacted Oct. 10. It was sponsored by Sens. Ted Stevens, R-Alaska, Fred Thompson, R-Tenn., and Ben Nighthorse Campbell, R-Colo.

PHOTO: LAURENCE L. LEVIN

Sen. Fred Thompson, R-Tenn., left, talks with U.S. Chamber Director Scott Holman. Thompson was among the principal sponsors of a provision requiring that the Office of Management and Budget estimate and report to Congress annually the cumulative costs to the public of federal regulations.

A similar provision had been added to the Treasury appropriations bill last year.

In addition to measuring the cumulative effect of regulations, the new provision requires that the OMB estimate the costs and benefits of individual rules that federal agencies project will cost the economy more than $100 million annually.

Also, the OMB must recommend to Congress and the president which rules should be reformed or eliminated because they are wasteful or outdated.

The reports must be submitted to Congress by Sept. 30, 1998. A draft report, expected to be issued in July, will be open for public comment.

In a 1997 report, the OMB estimated that federal regulations annually provide to the public about $300 billion in benefits at a cost of $290 billion. However, the Chamber noted in comments submitted to the OMB that its estimate did not include administrative or paperwork requirements related to the rules.

The Chamber said the annual cost of preparing federal tax forms and related paperwork alone is between $153 billion and $183 billion a year. The Chamber's comments were based on research by Thomas D. Hopkins of the Center for the Study of American Business at Washington University in St. Louis.

The Chamber urged the OMB to develop a new database containing the estimated costs and benefits of each federal regulation. It recommended that the agency develop consistent methodologies for determining rules' costs and benefits and that the OMB track the costs and benefits.

Legislation introduced in late October by Reps. Thomas J. Bliley Jr., R-Va., David McIntosh, R-Ind., and Gary A. Condit, D-Calif.—known as the Regulatory Right-to-Know Act—would make the regulatory reports a permanent requirement and establish criteria for the OMB to follow in preparing the reports.

■ Victory

Purchasing Rule Killed

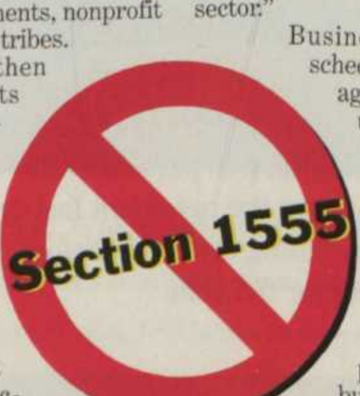
In a victory for small business, the U.S. Chamber of Commerce helped strike down a section of a federal procurement law that would have put the federal government in competition with small firms selling to some entities.

The fiscal 1998 Treasury Department appropriations bill, approved recently by Congress and signed by President Clinton, repealed the troublesome part of the law—Section 1555 of the Federal Acquisition Streamlining Act of 1994.

Before Section 1555 was repealed, opponents had blocked its implementation by winning delays in its effective date.

The section would have allowed the U.S. General Services Administration (GSA) to make its vendor-supply schedules for the federal government available to state and local governments, nonprofit organizations, and Indian tribes.

These entities could then have purchased products on those schedules directly from the private-sector vendors—bypassing the businesses' distributors—at the same prices paid by the federal government.



Private-sector purchasers generally must go through a manufacturer's distributor when buying a product.

Product prices for the federal government typically are lower than those available to the general public.

Says Jody Olmer, director of domestic policy for the Chamber: "Section 1555 would have placed the GSA in a distributor role and put the federal government in direct competition with the private sector."

Businesses not on the GSA schedule would be competing against those on the schedule—with their lower prices—when selling to state and local governments, nonprofit organizations, and Indian tribes, Olmer points out.

The section likely would have put some private distributors out of business as state and local governments, nonprofit organizations, and Indian tribes ordered directly from vendors using the GSA schedule, Olmer says.

■ Reform Urged

Chamber Targets IRS

Members of the Senate are being urged by the U.S. Chamber of Commerce to follow the lead of the House in passing legislation quickly to restructure the Internal Revenue Service.

The House overwhelmingly approved a bill to overhaul the IRS by a vote of 426-4 on Nov. 5. The legislation, sponsored by Rep. Bill Archer, R-Texas, is similar to a bill pending in the Senate.

The bills would:

■ Allow taxpayers to recover damages of up to $100,000 if a federal court rules that the IRS recklessly and intentionally violated the law or engaged in unauthorized, improper, or erroneous collection actions.

■ Make it easier for taxpayers to recover legal fees incurred in litigating disputes with the IRS.

■ Create an independent board to oversee the IRS. A majority of the board's members, appointed by the president and confirmed by the Senate, would be from the private sector.

■ Call for funding for the IRS to improve customer service.

The bill pending in the Senate, S. 1096, is sponsored by Sen. J. Robert Kerrey, D-Neb. Kerrey and Rep. Rob Portman, R-Ohio, chaired the National Commission on Restructuring the Internal Revenue Service. The Chamber has been working diligently for passage in both houses.


PHOTO: T. MICHAEL KEZA

Rep. Rob Portman, R-Ohio, recently addressed the U.S. Chamber's Tax Policy Committee about the recommendations of the national commission on the IRS, which he and Sen. J. Robert Kerrey, D-Neb., chaired.

"This legislation thoughtfully addresses many of the inherent inefficiencies within the IRS and represents a critically important step in solving these problems," says Chamber President and CEO Thomas J. Donohue.

The House bill moved quickly through the Ways and Means Committee, which Archer chairs, in late October.

Call your senators at (202) 224-3121 and urge approval of IRS reform legislation.

■ Upcoming Event

Annual Meeting Set For Feb. 23

The 1998 annual meeting of the U.S. Chamber of Commerce will take place Feb. 23 at the Chamber's headquarters in Washington.

The event, to run from 12:15 to 2 p.m. Eastern time, will be broadcast by satellite to locations nationwide.

A panel of members of Congress will discuss the 1998 legislative and political outlooks, and the 1998 national honorees in the Blue Chip Enterprise Initiative will be recognized.

The Blue Chip program honors small businesses that have overcome adversity and emerged stronger. It is sponsored by Massachusetts Mutual Life Insurance Co., known as MassMutual—The Blue Chip Company; the U.S. Chamber; *Nation's Business*; and "First Business," the weekday morning news show presented by the Chamber.

For the location of the satellite downlink nearest you or for more information about the annual meeting, call Linda Mays at (202) 463-5604.

■ Technology

Seminars Set For Next Year

The 1998 dates have been set for a series of technology conferences and expositions designed for small firms and presented by Microsoft Corp. and the U.S. Chamber of Commerce.

Dates, cities, and locations for the events are:

■ Jan. 14, Seattle, Seattle Center.

■ Jan. 22, Philadelphia, Adam's Mark Hotel.

■ Jan. 28, Baltimore, Baltimore Convention Center.

■ Feb. 3, Minneapolis, Minneapolis Convention Center.

■ Feb. 10, Detroit, COBO Conference and Exhibition Center.

■ Feb. 18, Atlanta, Atlanta Market Center.

■ Feb. 25, Sacramento, Calif., Sacramento Convention Center.

■ March 4, Indianapolis, Indiana Convention Center.

■ March 11, Tampa, Fla., Tampa Convention Center.

■ March 18, Columbus, Ohio, Greater Columbus Convention Center.

■ March 25, Secaucus, N.J., Meadowlands Hilton Hotel.

■ April 2, Milwaukee, The Wisconsin Center.

■ April 8, New Orleans, Ernest N. Morial Convention Center.

■ April 16, Pittsburgh, David Lawrence Convention Center.

■ April 21, Salt Lake City, Salt Palace Convention Center.

■ April 29, Cleveland, International Exposition Center.

■ May 7, Boston, Hynes Convention Center.

■ May 13, Oklahoma City, The Myrid Convention Center.

■ May 20, Norfolk, Va., Norfolk Scope Cultural and Convention Center.

■ May 28, Phoenix, Phoenix Civic Plaza.

■ June 11, San Francisco, Concourse Exhibition Center.

■ June 16, Houston, Astrohall Conference Center.

■ June 24, Denver, Denver Merchandise Mart.

■ June 30, St. Louis, Cervantes Convention Center at America's Center.

For more information, call event organizers H.A. Bruno Inc. at (201) 346-1422.

■ Chamber Win

Nuclear Waste Bill Passed

Electricity consumers, aided by the U.S. Chamber of Commerce, scored an important victory recently when the House passed legislation that will enable nuclear waste to be stored in Nevada.

The Chamber was instrumental in persuading representatives to approve the measure, which was passed by the Senate earlier this year.

The House vote Oct. 30 was 307-120. The Senate approved its bill April 15 by a 65-34 vote.

The legislation designates Yucca Mountain in the southern desert area of Nevada as a temporary storage site for waste from nuclear power plants.

The storage issue is particularly important to businesses, which are among the largest users of electricity. Virtually all electric utilities sell electricity generated at nuclear power plants. Those plants—109 in 34 states—are quickly running out of on-site storage space for spent nuclear fuel rods. In 1998, 27 of the plants are projected to be out of storage space.

According to various cost estimates, with no central storage site, utilities would have to spend $7 billion to $8 billion collectively to expand on-site storage for nuclear waste. The expectation is that those costs would be passed on to consumers. Through electricity-rate increases, consumers already have paid $13 billion into a fund to finance a central storage facility for spent fuel rods.

If utilities cannot expand their on-site storage and no central storage area is approved, nuclear plants that reach storage capacity would be forced to shut down under current law.

President Clinton has indicated his opposition to the legislation and is expected to veto it, but lawmakers can override the veto with a two-thirds vote in each house.

Call the White House at (202) 456-1414 and urge President Clinton to sign the nuclear-waste-storage bill into law.

■ NAFTA

PHOTO: AL STEPHENSON

Larry Liebenow, president and CEO of Quaker Fabric Corp. of Fall River, Mass., and a director of the U.S. Chamber, told a House panel that the North American Free Trade Agreement has been beneficial to the U.S. economy and to small and midsize companies such as his. Liebenow testified on behalf of the Chamber before the House Ways and Means Subcommittee on Trade in mid-September.

■ Federal Contracting

Chamber Fights 'Blacklisting' Rule

The U.S. Chamber of Commerce is leading a broad-based coalition of entities that oppose a federal-contracting regulation expected to be issued by the Clinton administration soon after Congress adjourns for the year.

The anticipated regulation is known as the "blacklisting" rule. It is widely expected that under the rule, a government agency will examine bidders' records of complying with laws governing workplace safety and health, wages and benefits, equal opportunity, and union organizing and bargaining before awarding a contract. The government would be able to penalize bidders or bar them from receiving federal contracts if they have a record deemed "unsatisfactory."

The regulation is expected to apply to union and nonunion businesses, colleges and universities, public hospitals, and other nonprofit organizations that contract with the federal government.

The Chamber-led coalition against the rule is the National Alliance Against Blacklisting, which consists of businesses, business associations, and other organizations. The group says a new contracting rule is unnecessary because current regulations already prohibit the government from awarding contracts to firms and nonprofit groups engaged in irresponsible or unethical business practices.

Vice President Gore revealed the essence of the contracting rule in February during an AFL-CIO meeting in Los Angeles. He reiterated the administration's support for such a regulation at an AFL-CIO meeting in Pittsburgh in late September.

■ Health Care

Peter M. Kelly, a member of the U.S. Chamber's Health and Employee Benefits Committee, testified on behalf of business against legislation that would expand medical-malpractice liability to employers and health-insurance carriers. Kelly testified in late October before the House Education and Workforce Subcommittee on Employer-Employee Relations. (For details on the measure and efforts by the Clinton administration to impose health-care mandates on employers, see Page 10A.)

PHOTO: ©DENNIS BRACK–BLACK STAR

Action Urged

Chamber Warns Against Climate Pact

The U.S. Chamber of Commerce is asking its members to urge their senators to oppose ratification of a pending United Nations treaty concerning global climate change.

Clinton administration officials appear set to agree to the legally binding treaty, which is expected to mandate deep cuts by the United States and other developed nations in the use of fossil fuels. The signing is set for early December during a meeting of the world's industrialized countries in Kyoto, Japan.

It is expected that under the treaty, each developed nation will be required to cut greenhouse-gas emissions by 10 to 15 percent between 2008 and 2012. However, for the treaty to apply to the United States, it must be approved by a two-thirds majority of the U.S. Senate.

The Chamber and other critics of the treaty contend that the mandatory reductions would substantially harm the U.S. economy.

In addition, the Chamber notes, the United States already has slowed the rate of growth in its carbon dioxide (CO_2) emissions, relative to its economic growth rate, in the past 20 years. A Chamber analysis of data from the Energy Information Agency from 1959 to 1995 shows that the U.S. gross domestic product has grown by more than 200 percent while CO_2 emissions have only doubled. (See the chart.) Emissions per capita increased by only 28 percent.

Why The Treaty Is At Issue

Greenhouse gases are at issue because, according to some climatologists, they trap solar heat in the Earth's atmosphere. These scientists theorize that the resulting "greenhouse effect" will gradually melt the polar icecaps and cause other climate changes that could lead to irreparable environmental and property damage. Other climatologists, however, maintain that climate change is driven largely by natural phenomena and that the climate is subject to periodic warming and cooling.

Among the principal sources of greenhouse gases, which include CO_2, is the burning of fossil fuels such as oil and gas.

While the Chamber views global climate change as a serious matter, says Stuart Hardy, the organization's manager for environment policy, it opposes mandatory emissions reductions and believes that any solution should be voluntary and applied worldwide, not just to industrialized countries.

Only the United States and 34 other industrialized nations are expected to sign the treaty. Developing nations, such as China, India, Brazil, and Mexico, are expected to be exempt from any meaningful curbs on their emissions or to be given much longer timetables to make cuts.

A Comparison Of U.S. Growth Rates

	1959	1995	Increase
Population (In millions)	177	264	49%
CO_2 Emissions (In millions of tons)	3	5.9	97%
Gross Domestic Product (In trillions)	$2.2	$6.7	204%

The expected exemption of the developing countries prompted the Senate in July to pass 95-0 a resolution expressing its sense that any global-climate treaty include developing countries.

A New Tax Could Result

The Chamber has concluded that the costs of reductions in fossil-fuel use of the magnitude being considered in the U.N. treaty could be devastating for the U.S. economy, says Hardy.

According to several studies, cutting greenhouse-gas emissions in the United States by 10 to 15 percent over 15 years would likely require imposition of a broad-based energy tax.

Such an energy tax could result in a drop in the U.S. gross domestic product of 2 to 3 percent and an annual loss of 600,000 jobs, according to a study by DRI/McGraw-Hill.

Call your senators immediately and urge them to oppose the pending U.N. global-climate treaty. Lawmakers can be reached through the Capitol switchboard at (202) 224-3121.

Politics

Political pollsters Ed Goeas and Celinda Lake presented their views on the political climate to business leaders at the U.S. Chamber of Commerce in October. Goeas is president and CEO of the Tarrance Group, and Lake is president of Lake, Sosin, Snell, Perry & Associates. The pollsters believe that the makeup of Congress will not change much as the result of the 1998 elections. If opinions in autumn polls hold firm, they said, the public will not be inclined to vote out incumbents. In September, both President Clinton and Congress enjoyed public-approval ratings above 50 percent.

■ Leadership

Donohue Details 'Growth Agenda'

Noting that "major reforms" in government programs and policies are needed to keep the U.S. economy strong, Thomas J. Donohue, president and CEO of the U.S. Chamber of Commerce, called for a "growth agenda for America" in a recent address at the National Press Club in Washington.

The growth agenda, Donohue said, must include:

■ Restructuring federal entitlement programs, such as Social Security and Medicare.

Without changes in those systems, he said, in 30 years between one-third and one-half of workers' paychecks will be taken by payroll taxes, and payroll taxes have already increased 22 times in the past 28 years.

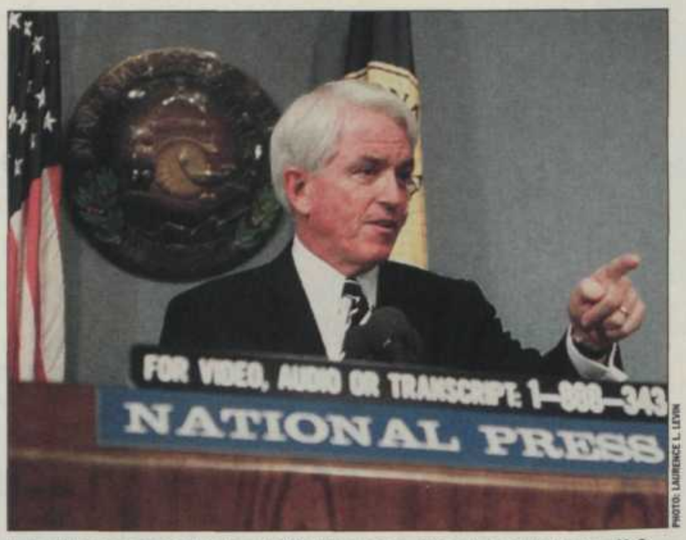


PHOTO: LAURENCE L. LEVIN

U.S. Chamber President and CEO Thomas J. Donohue called for a U.S. "growth agenda" during an October speech at the National Press Club.

■ Modernizing the federal regulatory system.

Donohue pointed out that regulations now cost business more than $670 billion a year.

■ Simplifying and restructuring the federal tax system.

Under the current system, the Chamber president noted, one-third of small, family-owned firms, for example, must be sold upon the death of the owner to pay the estate tax.

■ Expanding trade.

By 2000, said Donohue, U.S. exports are expected to exceed $1 trillion annually and to account for at least 16 million American jobs.

In addition, Donohue said, current workplace rules must be modernized and excessive litigation curtailed, the nation's transportation systems and infrastructure must be improved, and crime and drug use must be reduced. Also, businesses need help finding skilled workers.

"These are the key elements of what the U.S. Chamber sees as America's next agenda," said Donohue. "I believe it is an agenda around which we can rally our diverse membership and win broad support from the American people."

He said the Chamber's mission is to "vigorously advance the collective interests of all business—entrepreneurs, small companies, corporations, and the people they employ—and to represent them before Congress, the federal agencies, the courts, and the court of public opinion."

He said the organization will push aggressively for tax and regulatory policies that help small firms; will help develop new markets for American products and services through trade promotion and the removal of trade barriers; will offer business solutions to some of the most pressing and difficult challenges facing society, including drug abuse and crime; and will challenge "those who would suck the vitality out of the free-enterprise system."

■ Privatization

PHOTO: T. MICHAEL KEZA

Rep. Scott Klug, R-Wis., speaking in September at a meeting of the U.S. Chamber's privatization task force, asked business to lend its support to legislative efforts to turn over to the private sector some of the functions of the federal government. The Chamber is supporting such efforts.

■ Chamber Home Page

Speeches Available Online

Members of the U.S. Chamber of Commerce can now view and hear selected speeches by Chamber executives and guest speakers on the organization's home page on the Internet.

The video and audio material is in the members-only section of the Chamber's home page. The address is *www.uschamber.org/member/password.html*. Use your member identification number to reach this area of the site. (If you don't know your Chamber ID number, follow the directions on the members-only page, and the Chamber will send you within 24 hours an electronic mail message with your number.)

Information concerning other products and services offered by the Chamber can be accessed from the site's main page, *www.uschamber.org*. The site contains information on a range of Chamber activities and on the organization's position on legislative issues.

Other topics include the Blue Chip Enterprise Initiative, a program that honors small-business people who surmount significant challenges on their paths to success. The initiative is sponsored by Massachusetts Mutual Life Insurance Co., known as MassMutual—The Blue Chip Company, and by the U.S. Chamber, *Nation's Business*, and "First Business," the Chamber's weekday TV news program.

GAIN UPDATE
GRASSROOTS ACTION INFORMATION NETWORK
U.S. Chamber of Commerce Federation

Senate Measure Would Improve Regulatory Process

Rule Making Should Be Sensible And Rule Makers Accountable, Chamber Says

The U.S. Chamber of Commerce is backing legislation to make the federal regulatory process more sensible and understandable and to hold federal agencies more accountable for regulations they develop.

The measure would also open the federal regulatory process to greater public participation.

Titled the Regulatory Improvement Act (S. 981), the legislation "is the product of extensive efforts by Congress to make improvements in the federal regulatory process," says Sally Jefferson, the Chamber's manager of regulatory policy.

The bill is sponsored by Sens. Carl Levin, D-Mich., and Fred Thompson, R-Tenn. Co-sponsors are Sens. Spencer Abraham, R-Mich., John Glenn, D-Ohio, Charles S. Robb, D-Va., John D. Rockefeller IV, D-W.Va., William V. Roth Jr., R-Del., and Ted Stevens, R-Alaska.

Key Elements Of The Bill

The bill would make procedural changes in the way that rules and regulations are designed.

It would require federal agencies to conduct regulatory studies, including cost-benefit analyses and, if relevant, risk assessments, when issuing "major" regulations. The bill defines such regulations as those costing more than $100 million or that the White House Office of Management and Budget determines would have a "significant impact" on the economy.

A regulatory analysis would have to include the anticipated costs and benefits of a proposed rule and any reasonable alternatives to the regulation.

For a major rule dealing with health, safety, or the environment, the analysis would have to include a risk assessment and relevant information about the risk, the assumptions and estimates used, and scenarios of comparable risks. Agencies that must act expeditiously to address an imminent threat to health, safety, or the environment would be exempt from the regulatory-analysis requirements.

Under the legislation, agencies would be required to allow public comment and participation in developing risk assessments; independent peer review of cost-benefit analyses and risk assessments would also be mandatory.

A risk assessment and cost-benefit analysis would have to be included in the rule-making record of a regulation.

A federal court could overturn a rule if the analyses were not conducted or if the rule—based on the entire rule-making record—were deemed unreasonable. Courts could not review the analyses themselves, however.

Guidelines Would Be Established

The measure would establish principles and guidelines for preparing risk assessments and cost-benefit analyses of proposed regulations.

It would apply not only to proposed rules but also to existing regulations. Agencies would have to establish advisory committees composed of public and private interests, including small businesses, to identify existing rules that could be improved to increase the benefits to the public.

Based on the advisory committees' recommendations, agencies would have to issue schedules for the review of their rules every five years. Failure to complete the review of a rule within five years would trigger a process to repeal it.

"The Chamber believes federal regulations and standards should be based on state-of-the-art, peer-reviewed science," says the Chamber's Jefferson. "Quality risk-assessment and cost-benefit analyses must be used to set national priorities and target resources at critical hazards where the greatest public benefit can be achieved."

Although the Thompson-Levin measure is not expected to win approval during this session of Congress, the Senate Governmental Affairs Committee, which Thompson chairs, held a hearing on it in September. The bill is expected to be approved by the Governmental Affairs panel and sent to the Senate floor early next year.

How You Can Join GAIN

The Grassroots Action Information Network—GAIN—enhances the ability of business people to influence government decisions that affect their enterprises. Through the network, U.S. Chamber specialists on legislative and regulatory issues provide activist business people with the timely information they need to urge their members of Congress to cast pro-enterprise votes.

For more information on how to become a member of this network, call (202) 463-5604.

Chamber Invites Members To Serve On Committees

Members of the U.S. Chamber of Commerce who wish to serve on one of the business federation's policy committees during 1998 are invited to submit their names for consideration.

The Chamber's policy committees help identify current and emerging problems, provide recommendations to the Chamber's board of directors regarding policies and positions on issues, and help implement policies.

Each year the board chairman appoints Chamber members to the committees for one-year terms. Special care is given to assure that the panels are geographically balanced and that a cross section of the Chamber's membership is represented. Efforts are also made to ensure that members with diverse interests and points of view are represented.

To serve on a panel, individuals or their organizations must be U.S. Chamber members, have sufficient background in the relevant issues to contribute to the panel's work, and be willing to cover all expenses for attending committee meetings, which usually are held two or three times each year in Washington, D.C.

The committees are listed in alphabetical order. To be considered for service, contact the U.S. Chamber regional office in your area. (See "Where To Call" on Page 9A.)

There is no guarantee that persons who express an interest will be invited to serve. The chairman of the board will approve committee appointments based on the needs of the Chamber, including the desire to maintain geographic, industry, and membership balance on each panel.

Association Committee

This panel recommends Chamber policies on association-related issues. It also suggests programs related to associations, fosters networking and collaboration among associations, and ensures association participation and involvement in Chamber activities.

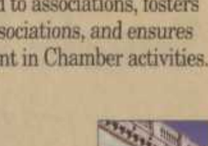
Chamber Of Commerce Committee

This panel advises the U.S. Chamber on organization-related issues and programs. Composed of local and state chamber executives, the committee fosters communication among chambers of commerce and the U.S. Chamber; provides an effective link between the U.S. Chamber and state and local chambers of commerce on programs, services, and policy matters; and promotes increased participation by state and local chambers in U.S. Chamber programs and committees.

Council On Small Business

This committee helps serve more fully the needs of small-business members of the U.S. Chamber. The council helps small firms take more effective action on legislative, regulatory, international-trade, and political issues. It is able to bring to the Chamber board's attention any issue it regards as important to small business.

Economic Policy Committee



This panel studies and evaluates the implications of federal budget proposals. A prime contributor to the Chamber's overall economic-policy positions, the committee also analyzes and develops policies on a variety of monetary, financial, and fiscal issues.

Education, Employment And Training Committee

This committee directs Chamber policies relating to all issues that affect work-force preparation, including education reform, adult training and retraining, higher education, and vocational and technical training.

Energy And Natural Resources Committee

This panel sets Chamber policies on the management, development, and protection of natural resources, such as fuel and nonfuel minerals and timber. It is also responsible for developing and maintaining policies on land use and exploration and extraction of resources, as well as on issues affecting the production, use, and conservation of energy.

Environment Committee

This panel analyzes and evaluates legislative and regulatory proposals for managing the physical and biological environments. It develops Chamber policies outlining environmental-quality objectives.

Food And Agriculture Committee

This committee identifies major changes affecting the food and agricultural industries and proposes national policies to permit these industries to operate under a competitive market system. It promotes improved conditions for food production and international agricultural trade.

Health And Employee Benefits Committee

This panel develops Chamber policy recommendations on all employee-benefit issues, including health care, pension and retirement plans, and other employer-provided benefits, as well as on public programs such as Social Security and Medicare. The committee oversees the Chamber's response to employee-benefit legislation pending before congressional committees and to regulatory initiatives before administrative agencies.

International Policy Committee

This committee develops the Chamber's international-policy positions and recommendations on issues such as U.S.-China economic relations, fast-track trade-negotiating authority, changes in various U.S. trade laws and trade-development programs, and various domestic issues that affect U.S. international competitiveness.

Labor Relations Committee

This committee develops Chamber policies and programs on a wide range of labor and employment issues, including labor-management relations, union corporate campaigns, rulings by the National Labor Relations Board, employment discrimination, the federal minimum wage and other wage-and-hour issues, occupational safety and health, workers' compensation, workplace privacy, unemployment compensation, work and family issues, and substance abuse in the workplace.

The committee guides and assists the Chamber in its efforts to serve as a counterbalance to the Washington presence of organized labor and other groups advocating the erosion of management rights.

Public Affairs Committee

This committee oversees the Chamber's political programs, including the endorsement of candidates for Congress, the Spirit of Enterprise Award program for pro-business members of Congress, voter-registration efforts, meet-and-greet sessions with candidates, forums with new members of Congress, and *How They Voted*, the Chamber's annual publication of the vote ratings of members of Congress on business issues.

Through these programs, the committee strives to influence public policy by working with, recognizing, and rewarding pro-business members of Congress and pro-business candidates for Congress. The committee also recommends Chamber policies on such legislative issues as campaign-finance reform and congressional reform.

Regulatory Affairs Committee

This panel develops Chamber policies on reform of the federal regulatory process, regulatory review, regulatory-information management, and other proposals for taming the growth of and easing compliance with federal regulations. One of its primary functions is to complement the work of other Chamber policy committees.

Taxation Committee

This committee recommends Chamber policies on legislative initiatives and changes to the Internal Revenue Code and U.S. Treasury regulations. The committee also initiates and reviews proposals to promote long-term economic growth and the international competitiveness of U.S. business.

Where To Call

Eastern Region

Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont

Executive Director Gregory Wilson, 1-800-778-7262

Midwestern Region

Colorado, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin

Executive Director Richard Castner, 1-800-344-5203

Southeast Region

Alabama, Florida, Georgia, North Carolina, Puerto Rico, South Carolina, Virginia, West Virginia

Executive Director Pat Gartland, 1-888-889-2736

Southwest Region

Arkansas, Kansas, Louisiana, Missouri, Oklahoma

Executive Director Kris McKnight, 1-800-833-9106

Mississippi, New Mexico, Tennessee, Texas

Director Paul Stranz, 1-800-833-9106

Western Region

Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington, Wyoming

Executive Director Meg Jacobsen, 1-800-452-8405

Senate Bill To Update Species Act Wins Chamber's Qualified Support

Calling it a "step in the right direction," the U.S. Chamber of Commerce is backing a Senate bill that would update and extend the Endangered Species Act, but the organization is urging further improvements to the measure.

The bill, the Endangered Species Recovery Act (S. 1180), was approved Sept. 30 by the Environment and Public Works Committee on a bipartisan 15-3 vote. At press time, action by the full Senate was expected in November or early next year.

The Chamber supports provisions in the legislation that would:

■ Strengthen efforts by the U.S. Interior Department to restore the health of populations of threatened species.

■ Require better use of scientific data and methods to determine if a plant or animal is truly threatened and to decide how it should be protected and recovered.

A major problem with the existing program, says Stuart Hardy, senior manager of natural-resources policy for the Chamber, is that dozens of species on the endangered list, including the snail darter and the spotted owl, may not belong there. Hardy says that's because the scientific methodology used to list species often is flawed.


PHOTO: ©ROBERT LANKINEN-THE WILDLIFE COLLECTION

■ Reduce costly delays in government projects, such as bridge and highway construction, by forcing the Interior Department to make timely decisions on whether they can go forward without adversely affecting a protected plant or animal.

■ Provide incentives for landowners who voluntarily protect species and their habitats. Under the measure, landowners would receive assurances that they would not be subject to additional species-act regulations and that they would not be penalized for actions that might accidentally harm a species or its habitat.

Among the improvements that business is seeking in the bill, says Hardy, is inclusion of language requiring the government to compensate property owners forced to set aside land as habitat for endangered plants or animals.

An amendment to require such language is expected to be proposed during Senate debate on the measure.

While the Clinton administration supports the bill cleared by the Senate environment panel, it strongly opposes inclusion of any landowner compensation.

No legislation similar to the Senate bill has been introduced in the House.

Clinton's 1998 Health-Care Plans Will Face Chamber Opposition

The U.S. Chamber of Commerce is gearing up to fight Clinton administration health-care measures expected to be introduced in Congress next year.

The measures are expected to contain many of the controversial provisions that were included in the president's massive 1993 health-care proposal. The 1993 bill never came up for a vote in Congress, largely because of widespread business opposition, particularly from the Chamber.

The bill would have:

■ Required employers to pay 80 percent of their workers' health-insurance premiums.

■ Mandated minimum health-care benefits packages.

■ Set up a government-run bureaucracy to regulate certain aspects of health coverage.

Now, the administration is expected to try to achieve many of those goals by pursuing enactment of several narrower health-care bills.

Neil Trautwein, manager of health-care policy for the Chamber, says this incremental approach "is as dangerous to our health-care system as were past proposals for government-run health care."

Trautwein says the imposition of benefit mandates and other changes in the system being considered by the Clinton administration likely would lead to higher health-care costs and fewer employers offering coverage. The Congressional Budget Office has estimated that for each 1 percent increase in the cost of health benefits, 200,000 people lose health coverage.

The president's Advisory Commission on Consumer Protection and Quality in the Health Care Industry was expected to issue preliminary recommendations for "reforming" the nation's health-care system in mid-November. The commission was established by Clinton early in 1997 to craft a consumer bill of health-care rights.

The commission is expected to propose many of the bureaucratic structures sought unsuccessfully by the president four years ago.

Clinton suggested his intentions on health care in a September speech in Washington, D.C., to the Service Employees International Union: "What I tried to do before [on health care] won't work; maybe we can do it in another way. That's what we've tried to do a step at a time until eventually we finish this."

Bills sponsored by Rep. Charles Norwood, R-Ga., and Sen. Alfonse M. D'Amato, R-N.Y., that take such an incremental approach are pending in the House and Senate.

The bills would expand medical-malpractice liability. Not only doctors and other health-care providers, but also health-insurance carriers and employers who provide the coverage, could be sued for malpractice under the measures.

The bills also contain several anti-managed-care provisions, including one that would undercut the ability of managed-care plans to set up provider networks.

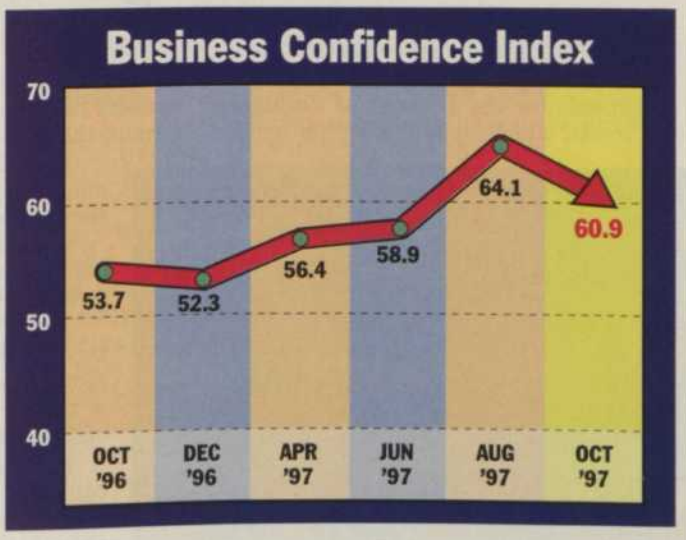
The U.S. Labor Department has been receptive to the changes in the Employee Retirement Income Security Act that would be needed to implement the Norwood-D'Amato bill.

Peter M. Kelly, a member of the Chamber's Health and Employee Benefits Committee and an attorney with the Chicago law firm of Murphy, Smith & Polk, testified on behalf of the Chamber against the Norwood-D'Amato legislation. He appeared at a hearing of the House Education and the Workforce Subcommittee on Employer-Employee Relations in late October.

Kelly told the subcommittee that the Chamber strongly objects to anti-managed-care initiatives and the expansion of medical-malpractice liability for health plans and employers. GU

■ Business Outlook

Confidence Declines



Business owners' confidence in the economy fell in October for the first time this year, according to the U.S. Chamber of Commerce's Business Ballot member poll.

The Business Confidence Index, based on the bimonthly poll, dipped to 60.9 in October from 64.1 in August. However, the index was still up from its April level of 56.4 and above the December 1996 level of 52.3. (See the chart.) And despite October's decline, the index stands at its third-highest level since December 1994, when it was 65.2.

The Business Confidence Index is based on responses to the three economic-outlook questions in each Business Ballot poll. The ballot also surveys readers' attitudes on other timely issues, such as legislation pending in Congress.

In the most recent economic poll, the percentage of respondents who said they expected the economy to improve over the next six months dropped to 31.7 percent from 37.1 percent in August. The percentage who believed that the economy would worsen in the next six months rose slightly, to 16.2 percent from 15 percent in August. More than 52 percent said they expected no change in the economy, compared with 48 percent who expected no change in August.

As for the outlook for their own firms, 46.6 percent, down from 50.6 percent in August, said they expected sales to increase over the next six months. The percentage of respondents expecting sales to drop climbed to 13.6 percent in October from 10.9 percent in August. Expecting no change were 39.8 percent, compared with 38.5 percent in August.

On the employment front, 27 percent said they expected to add jobs over the next six months, compared with 30.7 percent in August. A larger share of firms in October, 9.9 percent compared with 8 percent in August, said they expected to cut jobs. Respondents expecting no change in the size of their work forces totaled 63.1 percent, compared with 61.3 percent in August.

Be sure to respond to this month's Business Ballot in the plastic wrapper with The Business Advocate *and* Nation's Business.

■ Electricity

Deregulation Seminar Set

Select Energy Inc. and the U.S. Chamber of Commerce will conduct a seminar Dec. 1 on preparing for the deregulation of the electric-utility industry, which Congress is expected to consider next year.

Select Energy is the retail energy-services subsidiary of Northeast Utilities. Both firms are based in Berlin, Conn.

The seminar will be produced by the Chamber's Quality Learning Services (QLS) Department and will be broadcast by satellite from 1 to 3 p.m. Eastern time from the business federation's television studios in Washington, D.C.

The seminar will be available for viewing in California, Connecticut, Illinois, Maine, Maryland, Massachusetts, Michigan, Mississippi, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, South Carolina, and Vermont.

For information on arranging a local broadcast downlink site or on attending the program, call QLS at 1-800-835-4730.

■ Ballot Results

Majority Opposes U.N. Treaty

Nearly 70 percent of respondents to the latest Business Ballot poll of U.S. Chamber members believe that President Clinton should not sign the pending United Nations treaty on global climate change.

Just 19.1 percent said that Clinton should agree to the U.N. treaty, which is expected to be signed by the administration and other industrialized nations in early December in Kyoto, Japan. About 12 percent of respondents to the October poll said they were undecided about the legally binding treaty.

The pact is expected to call on the United States and other developed countries to cut their use of fossil fuels, such as oil and gas, to reduce the emission of so-called greenhouse gases. Some scientists say the gases cause changes in the global climate; other scientists disagree.

In an unrelated question, 50.6 percent of respondents said they support giving the administration fast-track trade-negotiating authority. Such authority would allow Clinton to enter into international trade agreements that would be subject only to a simple up-or-down vote of Congress; lawmakers could not amend the trade pacts.

Thirty-three percent said the administration should not be given such authority, and 15.9 percent were undecided.

On a question related to the recent Teamsters union strike of United Parcel Service, 34.2 percent of respondents believed that organized labor was the winner in the settlement. Just 5 percent said that business won; 6.7 percent believed that both sides were winners; and 54.1 percent were undecided.

Business Litigation

Court To Decide Key Cases

The U.S. Supreme Court has agreed to hear arguments during its 1997-98 term in four cases with broad significance to business and in which the U.S. Chamber of Commerce's legal center filed briefs.

The court is expected to decide the cases before its term ends next July. The term began Oct. 6.

The cases deal with union recognition, waivers of employment-discrimination claims, expert testimony, and environmental suits by citizens.

Here are summaries of the cases:

Union Recognition

The case at issue is *Allentown Mack Sales and Service, Inc. vs. National Labor Relations Board*, which was carried over from the Supreme Court's 1996-97 term.

The National Chamber Litigation Center (NCLC), the public-policy law firm affiliated with the Chamber, wants the high court to reverse a lower court decision concerning an employer's right to poll its workers about support for their union.

The decision being contested was issued in May 1996 by the U.S. Court of Appeals for the District of Columbia Circuit, which upheld a ruling by the National Labor Relations Board against Allentown Mack Sales and Service, an Allentown, Pa., truck dealership.

The National Chamber Litigation Center, the public-policy law firm of the U.S. Chamber of Commerce, recently hosted a media briefing on important business cases to be decided by the U.S. Supreme Court during its 1997-98 term. The presenters were Clifford M. Sloan, at dais, a partner in the Washington law firm of Wiley, Rein & Fielding, and Mark Levy, a partner in the Washington law firm of Howrey & Simon.

In late 1990, seven of Allentown Mack's 32 employees told company executives that they no longer supported their union, the International Association of Machinists and Aerospace Workers. Moreover, several additional workers reported that some of their fellow employees did not want a union.

The company then polled all employees to determine their sentiments, and the workers voted 19-13 against continued union representation. Subsequently, the company withdrew its recognition of the union.

The NLRB ruled that Allentown Mack's actions violated the National Labor Relations Act, which makes it an unfair labor practice for an employer to "interfere with, restrain, or coerce" employees in the exercise of their statutory right to organize.

In previous rulings, the NLRB acknowleged an employer's right to poll its workers in a noncoercive manner to determine their level of union support.

The NLRB also allowed an employer to withdraw recognition of a union on the basis of a "good-faith doubt" regarding the union's desirability among a majority of workers.

The NLRB did not find that the poll of Allentown Mack employees was conducted unfairly or that workers were coerced into voting against the union.

But the board ruled that the company did not have sufficient evidence of opposition to the union to justify the employee poll. It based its decision on its own recent rulings that an employer cannot conduct a union-recognition poll unless a majority of workers have expressed a specific desire to quit the union.

In its brief, the Chamber's NCLC says the NLRB's ruling in the Allentown Mack case is arbitrary and capricious because of the contradiction in its rulings. Under the board's most recent decision, says the litigation center, "an employer ... is free to poll its employees, but only when it already knows the results of that poll." The NCLC also maintains that the labor relations board lacks the statutory authority to restrict noncoercive polling.

Discrimination Waivers

Can a worker who waives the right to sue an employer in exchange for compensation renege on the agreement without returning the compensation?

That's the crux of the issue in *Dolores Oubre vs. Entergy Operations Inc.*

The NCLC is urging the Supreme Court to uphold a ruling by the U.S. Court of Appeals for the 5th Circuit in New Orleans that favors employers under such circumstances.

Oubre, among other workers at Entergy Operations, which runs five nuclear-power plants owned by Entergy Corp. of New Orleans, received a poor performance ranking from her employer in 1994. Oubre, an assistant plant scheduler, was given two options: Improve her rating or take a voluntary severance

package in exchange for a release of all claims against the company.

After consulting with an attorney, Oubre accepted the severance package and signed the release. It covered "any and all claims, demands, damages, actions, or causes of action occurring on or before the date of the execution of this release ... which in any way relate to my employment by or my separation from the company."

She later filed suit against Entergy for an alleged violation of the Age Discrimination in Employment Act (ADEA) of 1967. She was over 40 at the time of her voluntary separation.

The release, she claimed, was unenforceable because it did not meet the requirements of the Older Workers Benefit Protection Act (OWBPA) of 1990.

The benefit-protection law provides that a worker may not waive a right or claim unless it is "knowing and voluntary." Other requirements include that a release be in writing, that it reference the age-discrimination law, and that it be in exchange for consideration.

But a federal District Court judge and the 5th Circuit ruled that even if Entergy's release did not meet the requirements of the benefit-protection law, it would be valid because Oubre kept the severance package.

In its brief to the Supreme Court, the NCLC points out that under established principles of contract law, which apply to a release of employment claims, contracts may be voided only if they are quickly rescinded *and* if any consideration received for the contract is returned.

Allowing Oubre to keep the severance package and renege on the release of claims would likely "reduce substantially the amount employers would be willing to pay for releases," says the NCLC.

Citizen Environmental Suits

In *The Steel Company vs. Citizens For A Better Environment*, the Chamber's litigation center is asking the Supreme Court to overturn a lower court ruling that allowed an environmental group to sue a company for past violations of a federal environmental law even though the violations were corrected before the suit was filed.

The case is on appeal from the U.S. Court of Appeals for the 7th Circuit in Chicago.

The Chicago-based Citizens For A Better Environment sued The Steel Co., also of Chicago, for its failure to submit paperwork required under the federal Emergency Planning and Community Right-to-Know Act (EPCRA). The law, which is administered by the U.S. Environmental Protection Agency, allows private parties to sue to enforce it.

But under the statute, citizens groups must send a "notice of intent to sue" to the EPA, to the state where the violation occurred, and to the alleged violator at least 60 days before filing a suit.

In the case before the high court, The Steel Co. completed and filed the required paperwork before the environmental group filed its suit.

PHOTO: LANCE MURPHEY

The Supreme Court is expected to decide whether an employee who agrees in writing not to sue his or her employer in exchange for compensation can renege on the deal and still keep the compensation.

A federal District Court dismissed the case, saying that the court lacked jurisdiction because there was no injury to the environmental group after the violations had been corrected. But the 7th Circuit took the case on appeal and ruled that the community-right-to-know law allows suits for past violations of the statute.

Says the NCLC in its brief: "The plain language of the EPCRA citizen-suit provision establishes that Congress intended to limit such suits to cases of ongoing failures to 'complete and file' the requisite reports."

The NCLC notes the Supreme Court's ruling in a previous case that citizen suits may not be filed for past violations of the federal Clean Water Act, whose citizen-suit provision is nearly identical to that of the EPCRA.

If the Supreme Court does not reverse the appellate court's decision, says the NCLC, "private plaintiffs would have a license to sue even where EPCRA violations were cured prior to the suit and [where they] had been subject to EPA enforcement."

Expert Scientific Testimony

The NCLC is urging the Supreme Court to reverse a ruling related to a court's decision to exclude expert scientific testimony.

The ruling was made by the 11th U.S. Circuit Court of Appeals in Atlanta and concerns the ability of appellate courts to review trial court decisions on expert testimony.

In the case, *General Electric Co. vs. Robert K. Joiner*, Joiner, an electrician with the city of Thomasville, Ga., alleges that he contracted lung cancer from exposure to a chemical in electrical transformers manufactured by GE and other companies.

A U.S. District Court judge excluded the testimony of an "expert" witness who claimed that Joiner's exposure to the chemical caused his cancer; the judge said there was no scientific foundation for the conclusion. Subsequently, the judge dismissed the case.

Following an appeal by Joiner, the 11th Circuit reinstated the case and ruled that trial courts should give preference to admitting expert scientific testimony and that appellate courts should apply a "particularly stringent standard of review" to decisions to exclude such testimony.

But, argues the NCLC in its brief, the Supreme Court in a 1993 case, *Daubert vs. Merrell Dow Pharmaceuticals*, "firmly lodged with the trial court the responsibility for screening proffered scientific testimony in order to ensure its relevance and reliability."

The Chamber litigation center says the appeals court's use of a " 'particularly stringent' standard of review was improper and should be reversed because it fails to give due deference to the discretion and judgment of the trial judge."

"By creating a standard of review that scrutinizes decisions to exclude testimony more rigorously than decisions to admit testimony," adds the NCLC, "the 11th Circuit skews the evenhanded approach required" by the Federal Rules of Evidence.

■ Fast Track

Chamber Touts Trade Measure

Continued From Page 1A

Hill in late October and early November seeking to win lawmakers' support for fast track, which would allow the president to negotiate with other countries on trade agreements that would be subject only to up-or-down votes of Congress. Such pacts could not be amended.

The Senate cut off debate on fast-track implementing legislation Nov. 4 by a 69-31 vote. It was expected to approve a bill by mid-November. The House was scheduled to vote on a fast-track measure Nov. 7.

Among other efforts to secure passage of fast-track legislation, the Chamber hosted U.S. Secretary of State Madeleine K. Albright and Treasury Secretary Robert E. Rubin Oct. 23 at its Washington headquarters to rally support for the trade legislation.

Albright called passage of the measure the "single most important foreign-policy decision Congress will make this year." Rubin said that without such negotiating authority, U.S. firms would lose their competitiveness in the global economy.

The Chamber's president and CEO, Thomas J. Donohue, testified in support of fast-track authority at a Sept. 30 hearing of the House Ways and Means Subcommittee on Trade. Donohue told lawmakers that other countries, particularly those in Latin America, are moving ahead on trade agreements while the United States sits on the sidelines. He pointed out that since fast-track authority expired three years ago, 22 international trade agreements have been negotiated without the United States.

PHOTO: T. MICHAEL KEZA

Jason Berman, left, special counselor to President Clinton, and Jeffrey Lang, deputy U.S. trade representative, discussed the importance of fast-track trade-negotiating authority at a recent Policy Insiders meeting at the U.S. Chamber.

Chamber lobbyists have noted that fast-track authority is important because most countries will not enter into trade talks with the United States unless they are certain that agreements will not be changed by Congress.

"What this debate boils down to, quite simply, is eliminating costly restrictions on American products," says Bruce Josten, the Chamber's executive vice president for government relations. "A vote for fast-track is a vote for American leadership and American jobs."

■ Transportation

Highway Bill Pushed

At press time, the U.S. Chamber of Commerce was continuing to urge the Senate to approve a short-term extension of the federal law that funds much of the nation's transportation construction.

Nearly 5,000 highway and mass-transit construction projects ultimately will be forced to shut down if Congress fails to enact an extension this year, according to the American Association of State Highway and Transportation Officials.

On Oct. 1, the House approved an \$11.9 billion, six-month extension of the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). The law lapsed Sept. 30.

The Senate failed on three cloture votes in October to end debate on a \$180.7 billion, six-year ISTEA bill. After those votes, Majority Leader Trent Lott, R-Miss., removed the measure from consideration and threatened to postpone further action until next year. Congress was expected to adjourn for the year in mid-November.

The Chamber is asking senators to approve a limited extension of ISTEA—similar to the House measure—this year to fund transportation projects that are in progress.

Without such an extension, the business federation points out, the U.S. Department of Transportation will be unable to release new funds to the states for continuing highway and bridge projects, highway safety programs, and transit operations. ISTEA sets transportation priorities and requests congressional spending to meet those needs. The actual funding results from the annual appropriations process.

The 1991 act authorized \$157 billion to be spent over six years in five broad program areas: highways, mass transit, highway safety, truck safety, and transportation research. Lawmakers in both houses wanted to increase transportation spending significantly under the new ISTEA, but wrangling over various provisions in the House and Senate measures, including the formula for dividing transportation funds among the states, held up consideration of more-comprehensive legislation.

The Senate and the House are expected to renew debate on multiyear ISTEA bills early next year.

■ Legislation

Chamber Urges Action On OSHA Bill

The U.S. Chamber of Commerce is urging the Senate to pass a bill approved by the Labor and Human Resources Committee in October that would overhaul the Occupational Safety and Health Act of 1970.

The Chamber has been working for OSHA reform for several years.

The measure pending in the Senate is sponsored by Sen. Michael B. Enzi, R-Wyo. Senate Majority Leader Trent Lott, R-Miss., has said he will schedule a Senate vote in February.

A House bill similar to Enzi's, sponsored by Rep. James M. Talent, R-Mo., has yet to see action.

Among other provisions, Enzi's bill—the Safety Advancement For Employees (SAFE) Act—would:


PHOTO: T. MICHAEL KEZA

Sen. Michael B. Enzi, R-Wyo., is sponsoring legislation to overhaul the Occupational Safety and Health Act of 1970.

- Exempt employers from OSHA inspections for two years if they have been inspected by a third-party consultant certified by the U.S. Department of Labor.
- Allow OSHA to issue warnings rather than citations for some violations.
- Allow employers to establish voluntary employer-employee safety and health committees. Under current law, the National Labor Relations Act, employers are forbidden from setting up such labor-management committees.
- Require OSHA to submit proposed final safety and health rules to the National Academy of Sciences for review.

Call your senators and urge them to support Sen. Enzi's OSHA-reform bill. Dial (202) 224-3121.

U.S. Chamber MemberBenefits

Here are some of the most important products, services, and programs offered by the U.S. Chamber.

From Time Management To Life Leadership


Sean Covey

"Overcoming the Urgency Addiction: Moving from Time Management to Life Leadership" is the topic of a Dec. 9 satellite seminar to be presented by the U.S. Chamber's Quality Learning Services (QLS) Department and the American Society for Training and Development in Alexandria, Va. The society is a leader in the field of professional workplace training and development.

The seminar, which will air from 1 to 3 p.m. Eastern time, will be presented by Sean Covey, a vice president with the Covey Leadership Center, a leadership- and management-training company in Provo, Utah.

Covey will discuss how to say "no" to unimportant events, how to eliminate time-wasting tasks, and how to increase productivity by focusing on "highest-leveraged" activities.

For more information, call QLS at 1-800-835-4730 or (202) 463-5940.

Workers' Comp Supplement Published

The 1997 supplement to the U.S. Chamber's annual *Analysis of Workers' Compensation Laws* is available for $8 for Chamber members and $11 for nonmembers.

The supplement details legislative changes in workers' comp laws of the 50 states and the District of Columbia that took effect Jan. 1. It also includes midyear changes in such laws.

To order the supplement, write the U.S. Chamber of Commerce, Domestic Policy Publications, 1615 H Street, N.W., Washington, D.C. 20062-2000, or call (202) 463-5509. Request publication No. 0492. Checks should be made payable to the U.S. Chamber of Commerce.

The 1997 edition of the *Analysis of Workers' Compensation Laws*, which contains summaries of the various workers' comp laws, is still available.

It includes information on indemnity benefit levels and contains charts on the various jurisdictions' income benefits, insurance coverage, and legal requirements. The 1998 version is scheduled to be available in May.

The 1997 analysis costs $15 for Chamber members and $25 for nonmembers. It can be ordered through the same address and telephone number listed for the supplement. Ask for publication No. 0491.

Business News In The Morning

"First Business," the U.S. Chamber's weekday business-news television program, provides information of interest to small-business people.

FIRST BUSINESS

The live, half-hour program is broadcast by satellite from the Chamber's headquarters in Washington and is available in syndication through three satellite feeds beginning at 5 a.m. Eastern time. Updated versions are available at 5:30 a.m. and 6 a.m. Check your local listings for the time and station in your area.

The show, sponsored by Massachusetts Mutual Life Insurance Co., known as MassMutual—The Blue Chip Company, is also available through several regional cable outlets. They include Cable Television Network of New Jersey, Atlanta Media I News, and NewsChannel 8 in the Washington, D.C., area.

Resource Guide For Small Firms

The Small Business Resource Guide offers advice on issues such as taxes and financing, export markets, legal costs and fees, and risk management.

The publication was produced by the U.S. Chamber's Small Business Center and IBM Corp. U.S. Chamber members can receive one copy free; for additional copies, shipping and handling costs will be charged.

To order, call the Chamber's Small Business Center at (202) 463-5503.

Airborne Express Discounts Available

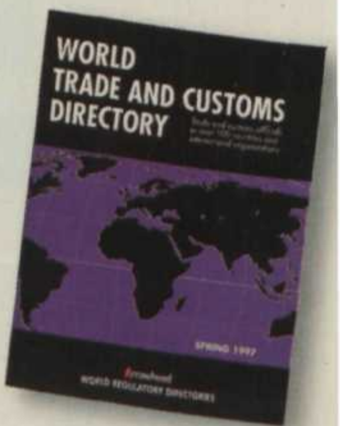
Through a special arrangement between the U.S. Chamber and Airborne Express, Chamber members can save up to 33 percent on the cost of overnight shipments to nearly anywhere in the United States and to the more than 200 foreign destinations served by Airborne.

The company offers round-the-clock customer service and computerized package tracking.

To obtain the special discount, call 1-800-636-2377 and identify yourself as a U.S. Chamber member. You will be sent a free starter kit on using Airborne Express.

International Directory

The Chamber's International Division has published a fall edition of a comprehensive directory of international government and trade-organization officials.



The *World Trade and Customs Directory*, produced twice a year, contains the names and telephone numbers of the trade and customs officials for more than 100 countries. It also lists Cabinet members, embassy officials, and basic facts about each country.

The International Division also offers a number of trade-resource guides and directories for specific countries.

To order the *World Trade and Customs Directory*, which costs $399 for the spring and fall editions, or to obtain a brochure of other International Division publications, call (202) 463-5460.

Small-Business Retirement Plans

The U.S. Chamber of Commerce and Fidelity Investments are offering a package of retirement plans and services that are designed to be accessible, affordable, and convenient for Chamber members.

The products, intended primarily for businesses employing fewer than 100 workers, include 401(k), Keogh, SEP-IRA, and SIMPLE (Savings Incentive Match Plan for Employees) plans.

Fidelity provides investment-management and record-keeping services as well as materials that employers can use to communicate with employees about the plans.

For more information, call Fidelity toll-free at 1-888-RET-PLAN (1-888-738-7526).

Fidelity Investments®